DECEMBER 1956

The Mortgage Banker

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

in this issue ---------- U. S. GROWTH MAY BE TOO FAST FOR COMFORT ★ HOW IT LOOKS FOR THE MORTGAGE BUSINESS NEXT YEAR

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MBA 1957 Calendar

January 17-18, Mortgage Servicing Clinic, Bellevue-Stratford Hotel, Philadelphia

January 22-24, Senior Executives Conference, New York University, New York

January 27-29, Senior Executives Conference, Southern Methodist University, Dallas

February 20-21, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

February 22, Board of Governors Meeting, Conrad Hilton Hotel, Chicago

March 14-15, Mortgage Servicing Clinic, Statler Hotel, St. Louis

March 21-22, Southern Mortgage Conference, Hotel Roosevelt, New Orleans

April 15-16, Eastern Mortgage Conference, Commodore Hotel, New York.

April 25-27, Southwestern Mortgage Clinic, Paradise and Jokake Inns, Phoenix

May 9-10, Mortgage Servicing Clinic, Biltmore Hotel, Los Angeles

May 15, Board of Governors Meeting, Golden Gate Hotel, Miami Beach.

May 16-18, Southeastern Mortgage Clinic, Golden Gate Hotel, Miami Beach

June 23-29, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 30-July 6, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 28-August 3, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 4-10, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 4-7, 44th Annual Convention, Statler Hilton Hotel, Dallas

The Mortgage Banker

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Volume 17 **DECEMBER, 1956** **Number 3**

Contents

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Highways and Byways of Business

1957 Will Be Best Business Year Yet

Next year will be bigger and better than ever—at least, so the experts say. According to the annual survey of leading economists by F. W. Dodge Corporation, 1957 will be the best business year in history, at least in dollar terms.

However, inflation will account for much of the rise in dollar indicators of business activity, according to the collective opinion of the 221 economists polled.

Judging from the numerical responses to nine specific questions on economic indicators, as well as from comments offered by most of the economists, three conclusions stand out:

- Business activity will set new records in 1957 in dollar terms, but this will be primarily the result of shrinkage in the purchasing power of the dollar, rather than a real increase in output.
- The consumer and wholesale price indexes will continue to rise, moderately but definitely.
- The rise in prices will be primarily the result of wage increases.

The fact that 1956 is an election year was noted by many of the economists in their comments, but only a handful indicated that they felt the election results might drastically alter the immediate outlook. There was far less discussion of the election in this year's survey than there was in 1954 when only a Congressional election was in the offing.

There was a widespread feeling among many of the economists who had comments to make that the second half of 1957 might see at least a slight decline in business activity, and this also showed up in some of the numerical forecasts of the various indicators. Others felt that there would be a levelling off in the second half. One economist summed up the feeling of many this way: "1957 a banner year. Plateau late in year, but no marked downturn. Election results will make little or no difference."

Whether we should get excited over the common feeling that the second half of 1957 will not continue the upward trend, and might even show a decrease, is a question. Experience with these and other surveys made at this time of year indicates that it is customary for many forecasters to take a somewhat dim view of the second half of the up-coming year, especially if they think the first half is going to be good. In short, there may well be a "second half downward bias" in annual forecasts.

Several of the economists, representing a wide range of interests, felt that tight money policies of the government had gone far enough (some felt they had gone too far) and that some easing was in prospect. The range of sentiment is expressed in these two comments: "I believe there is some danger that the Federal Reserve may apply the brakes too hard." "I expect a rise in employment in the early summer which will lead to a de facto acceptance of this round of inflation and easing of credit for further growth of the economy."

The economists participating in the current survey include 27 in financial organizations and insurance companies, 98 from other business firms, 56 from colleges and universities, and 16 from government; the remaining 24 are consultants or members of trade and research organizations.

In its own building forecast for 1957, Dodge predicts that dollar volume of construction contract awards will set a new record of 7 per cent above this year's total.

Contracts for total building in the 37 eastern states next year are estimated at $20,393,000,000, highest in history and 6 per cent above the estimate for 1956.

Business Property Money Scarce Too

Owners or prospective purchasers of business properties seeking mortgage loans are finding them less accessible and interest rates higher than they were six months ago, NAREB's survey shows.

Increased lender selectivity—a result of the decline in the availability of mortgage funds—was reported generally. Top credit risks were favored by most lenders, although borrowers of all categories who had maintained close and continuous connections with local lending institutions were finding such a relationship helpful in obtaining mortgage loans.

Only one-third of the reporters described the loan money situation in their area as "ample" in September for property in a prime location with a national credit lease; in March, two-thirds of the reporters had so described their local money market for such properties. According to the most recent survey, the prevailing interest rate for this property is 5 per cent or more in 65 per cent of the communities surveyed. This compared with 31 per cent of the localities that reported such a situation last March.

For property in prime locations and under local leases, the current survey indicated a generally "tight" money availability situation in 45 per cent of the survey areas—an appreciable increase from the 18 per cent of the country that reported a comparable situation last March. Prevailing interest rates of over 5 per cent were reported in half of the current reports, compared to only 23 per cent of the reports that found this situation generally true in March.

Prime location property occupied by the owner was found to be experiencing tight credit in 36 per cent of the survey communities in September—an increase from the 19 per cent of the areas making the same report six months ago. Interest rates over 5 per cent predominated for 50 per cent of the latest reports; in March, this rate was found to prevail in about a third of the survey territory.

Secondary location property under national credit leases experienced a tight money market in 31 per cent of

the September survey returns, compared to 11 per cent that found the same situation prevalent in March. Half of the communities found the prevailing interest rate to be more than 5 per cent—an increase from the 24 per cent that so indicated last March.

Money availability was reported to be "tight" in 58 per cent of the survey areas for property in secondary locations under local lease — an increase from the 35 per cent that found similar conditions to be generally true last March. The recent survey found 6 per cent interest prevailing in 48 per cent of the communities covered by the survey; in March, an interest rate of this nature prevailed in only 28 per cent of the survey.

Property in secondary locations and occupied by the owner was experiencing a generally tight money situation in 55 per cent of the country in September—an increase from the 37 per cent faced with a comparable situation in March. Interest rates stood at a prevailing 6 per cent for 44 per cent of the country in the last return; in March, a predominant rate of 6 per cent was found in 24 per cent of the communities surveyed.

Building Outlook Good Long Term

Few would venture a firm prediction on the outlook for home building for the next few years—but an estimate of what is ahead for the longer term can be tackled with a bit more assurance.

Whether or not house building slows up during the next few years, the outlook for the next quarter-century is favorable. More new homes will probably be built during the period as a whole than in any comparable previous period. They will be houses of relatively modest size and of lighter materials and structure. Most will be single family homes, financed by substantial mortgages backed in large part by the federal government. Many will be owned by lower-income families. And as incomes rise, more families will afford a vacation cottage as well as their year-round housing unit.

This outlook for residential building and its financing during the next generation is suggested in a monograph of the National Bureau of Economic Research. The study pinpoints and projects the influential factors in home-building since 1890.

Capital Formation in Residential Real Estate, by Drs. Leo Grebler, David M. Blank, and Louis Winnick, is the first systematic investigation of long-term trends in housing construction and its financing in the United States.

The study was prepared with the aid of a grant of funds to the National Bureau by the Life Insurance Association of America.

Despite our expanding economy and despite vastly increased facilities for financing, the authors found that the growth of capital invested in the housing stock and of new capital formation has been slowing down perceptibly over the past 60 years. The rate of growth per decade of "real"

residential capital fell from 47 per cent in 1890-1909 to 31 per cent in 1910-1929, and to 11 per cent in 1934-1953. This slackening in the rate of growth is associated with the well-known decline in rate of population increase and in formation of households, as well as with an important factor here identified for the first time: a drop, over the years, in the size of investment in the average new home—expressed in "constant" prices. Real expenditure per dwelling unit fell from about $6,000 in the 1890's to about $3,800 in the period 1946-1953, both figures in 1929 prices.

The explanation for the decline is complex. On one hand, many items of fixed equipment—bathrooms, closets, heating systems, kitchen cabinets—were added as minimum necessities. On the other hand, both households and houses became smaller, more housing was built in the South and West where mild weather permits simpler construction, and in the suburbs where average expenditure is less than in the city; and more families of moderate means became homeowners. Also, the rise in construction prices compared to other prices may have led consumers to economize on home costs.

Housing has apparently competed less successfully than other attractive products for a share in the consumer's dollar. Despite the spectacular increase in real income, per capita value of housing has barely held its own since 1890. The automobile, the growing emphasis on vacations and recreation, the popularity of "eating out," movies, radio and television, and washing machines and freezers have profoundly affected the ways consumers spend their income. In this respect, housing has shared the fate of other old and indispensable commodities.

Consequently it is not surprising to find that residential construction has become a less important factor in the total United States economy—in relation to total output, to total new construction, and to all capital formation. The housing boom after both wars increased its importance, but over the years a progressively smaller part of the nation's resources has gone into residential building.

Given a declining rate of increase in population and households, the relative importance of residential construction would have tended to diminish even if total output had grown no more rapidly than population. Since total output has grown much

more rapidly than population, the downward tendency in the production of new housing was powerfully reinforced.

Enormous increases in mortgage debt have occurred—whether measured in total dollars per capita or per household, or in relation to personal income or to total value of all homes. Nonfarm home mortgages now represent nearly half the total private long-term debt of the nation, as against 15 per cent in 1916. However, new estimates included in the report show that, although declining in recent years, the proportion of owner's funds to borrowed funds has been much larger than is usually assumed: about half the total before World War I, and about one-fourth in the recent postwar decade.

Borrowing has become more popular as costs were lowered and more liberal terms offered. But the authors of the study could not find evidence that declining interest rates have been a necessary condition for stepped-up home-building.

One explanation for increased borrowing is of course the great increase in home ownership. In 1940, 41 per cent of all homes (except farm) were occupied by owners; in 1955, 57 per cent.

Sources of residential mortgage funds were found to have changed greatly since 1890. The importance of the mutual savings banks declined appreciably, while the shares of commercial banks and life insurance companies rose from 5 per cent and 6 per cent respectively, at the beginning of the period, to 18 per cent and 22 per cent recently. Savings and loan associations have maintained their prominent role, holding almost 25 per cent of all residential mortgages in recent years.

The flexibility with which our financial institutions mobilized and channeled savings has been a major factor in the spread of house ownership to the income groups below the top. Their response to changing needs has resulted in lower financing costs, narrowing of regional differentials, and an increase in types of financing offered. Federal insurance of mortgage loans has of course played a major role in stimulating the participation of these institutions. It also has contributed to the development of a nationwide mortgage market of unprecedented magnitude, resulting in a more even flow of funds into various regions.

Looking ahead, the authors of the study believe that the rate of growth in residential capital will probably *not* continue its downward trend. Real investment per home will decline less sharply than in the past. The splitting-up of existing housing units, which in the last 20 years created unusually large numbers of additional facilities without involving new construction, will probably diminish in importance. High mobility of the population, responding to changing economic and other opportunities, a higher rate of demolitions, and increasing "fragmentation" of social units forming new households will call for a substantial volume of building. And as income goes up, with growing emphasis on leisure and recreation, more families will want a summer or weekend home. Expenditures for alterations and repairs on existing houses will probably increase.

But in the immediate future, less pressure for new construction will probably be felt than in the late sixties and seventies when the rich postwar baby crop reaches marriage age.

The dazzling variety of new products and services offered to the consumer is likely to outbid housing in the scale of consumer preferences. Thus home building will go on declining in relation to our total economic activity. "The long-term relative displacement of new residential construction in the nation's total economic effort, however," the authors say, "is but a consequence of a dynamic economy in which new goods and services are developed, and levels of total economic consumption increase beyond mere necessities."

Continued and probably expanding influence of the federal government is visualized. Within 20 years, federal programs of credit aid have increased to the point where up to half the market for new housing is financed by government-backed mortgage loans. The government aid programs have encouraged the flow of mortgage funds, lowered interest rates, and lengthened the period of loan repayment. Deep-seated social and economic forces will insure the continued responsibility of the government for better housing. This generally accepted objective, coupled with the importance of government housing programs in economic stabilization policies, will inevitably have a major effect on the volume and composition of residential building activity in the years to come.

Future opportunities for investment of mortgage funds in residential real estate should be plentiful, with increasing demand for modernization and improvement loans, "packaged" home loans including various consumer durables such as laundry equipment, and the construction of modern motels and summer cottages. The participation of banks, life insurance companies, and other institutions in financing home building is apt to continue to increase in the long run. But the authors caution that if new construction proceeds at the strong pace indicated by their investigation, the ease of borrowing for house purchases may be replaced by stringency of funds, conceivably by higher interest rates, and by an intensified search for new sources of mortgage funds.

VHMCP Loan Total Over $200 Million

A total of around $200 million in mortgage loans to home owners in remote or isolated areas, and to assist in the construction of housing for minority groups, has been made by the Voluntary Home Mortgage Credi Program.

This record, made in a compara tively brief period of operation, is al the more significant considering th steady tightening of credit over th past year as the capital market wa overwhelmed by demands for fund from public as well as private source to meet the expansion needs of th economy. VHMCP has been in oper ation for less than two years.

The cumulative total of loan granted under the program througl

the end of September was more than $195 million. Based on the lending rate of recent months, VHMCP is making mortgage loans at an annual rate of $180 million a year.

These figures are indicative of the extent that the program is meeting the objective of reducing the need for direct Government lending in the housing field as well as to make mortgage credit available on a nationwide basis in small towns and remote areas where adequate financing is not readily available through local channels.

In fact, expansion of local financing facilities has been one of the interesting by-products of the VHMCP operation. For example, reports from life insurance companies participating in the program indicate that it has led many companies to expand their correspondent systems into small communities and areas "off the beaten path" which had not been covered prior to the inauguration of VHMCP. As a result of this development, a substantial number of mortgage loans, not included in the VHMCP figures but which resulted from its operations, has been granted in these areas.

The largest number of loan applications approved under the program and the bulk of the funds provided were to individual home owners. The figures as of the end of September show that more than 19,000 of the loans granted, involving $164 million of mortgages, were to owner-occupants. The average of these loans is approximately $8,600, evidence of the fact that the bulk of the loans granted go to persons of small or moderate means.

All the loans under VHMCP are either insured by FHA or guaranteed by VA. The majority of the applicants are veterans.

Of the balance of the VHMCP loans made, the overwhelming majority went to builders. A large proportion of these is for minority housing projects. In all, close to 3,000 loans involving more than $31 million were made to builders as of the end of September.

VHMCP now comprises approximately 1,600 commercial and savings banks, life insurance companies, and savings and loan associations.

Social Welfare Up 5 Times in Decade

The cost of government-sponsored social welfare under civilian public programs in the United States has risen five-fold in the last decade.

Compilations made by the U. S. Department of Health, Education and Welfare show that expenditures for these programs from the public purse —Federal, State and local combined —rose from $4½ billion in 1945 to some $21½ billion in 1955.

This is a far greater rate of growth than the economy has shown in the period. National income, for example, gained 79 per cent between 1945 and 1955 as against a rise of some 400 per cent in social welfare expenditures for the decade.

Right now the bill for these programs comes to the equivalent of about $125 for every man, woman and child in the population, and is still heading upward under the pressure to expand and to liberalize benefits. The comparable figure a decade ago was little more than $30 per capita. As far as combined Federal, State and local expenditures are concerned, social welfare outlays alone currently represent approximately a fifth of the government spending dollar. About 60 per cent of the aggregate cost comes from Federal funds.

If education is included, as is done by the Department of Health, Welfare and Education in its compilation,

then the total cost of Government-sponsored programs in the welfare-education field adds up to $32½ billion for 1955 as compared with less than $8 billion in 1945, a rise of over 300 per cent. Public expenditures for education, however, have shown a substantially smaller rate of growth for the period than social welfare benefits.

As a result of the trend, social welfare has become one of the big and inflexible elements in the cost of government in this country, with a built-in growth factor besides.

Sees New Interest in FHA Rental Projects

An uptrend of interest in the development of new rental housing projects under FHA is noted by Commissioner Mason—indicated, he said, by the increasing number of plans that sponsors have been bringing to FHA recently for pre-application discussion.

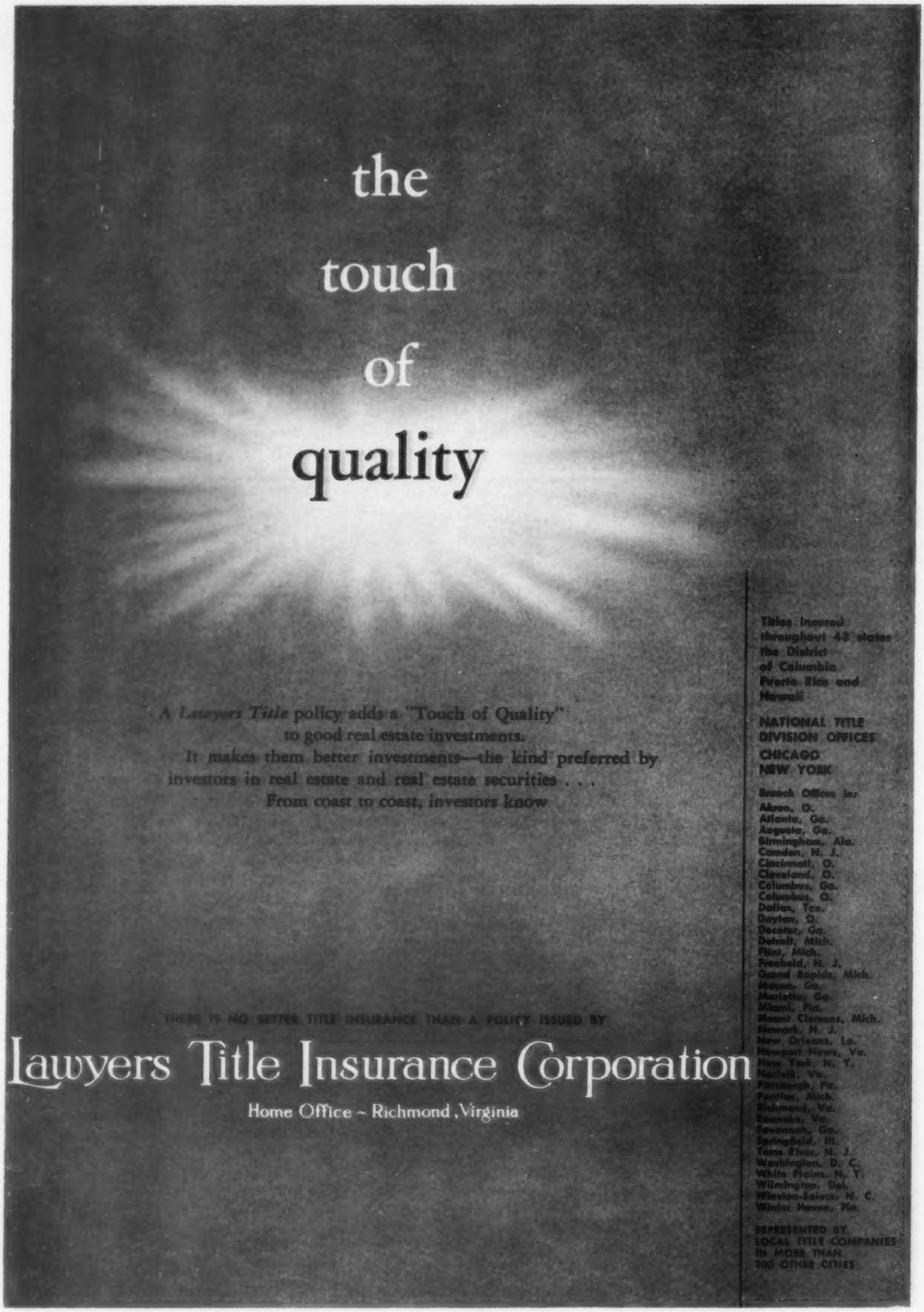
He attributes the renewed activity to the new terms provided by the Housing Act of 1956 and to the subsequent adoption by FHA of an improved form of corporate charter for rental housing projects. He feels that as soon as there is a relaxation in the tight mortgage money market, a substantial volume of rental housing will be ready to go into production.

Following the lines of good business practice, Mr. Mason said, FHA has greatly reduced its requirements and controls with respect to management as long as the project is operating normally. While the property is well maintained and the mortgage is in good standing, the FHA follows a hands-off policy. When default occurs, however, the new charter gives the Government the powers necessary to protect its interest in the same way that any prudent business concern would.

The number of cases in which FHA has exercised its rights as preferred stock owner has been extremely limited: since 1950 there have been less than half a dozen, aside from Section 608 "windfall" cases. The FHA interest, he said, often benefits all parties concerned by making it possible to work out solutions that prevent the mortgage from going into default.

Flexible Interest Rate Is in Canada

One of the aspects of the proposal for flexible interest rates in government-backed mortgage loans has been the suggestion that they should be tied to the general money market, fluctuating with the price of government credit. The Bank of Canada is probably the first institution anywhere to adopt such a policy. Instead of fixing the bank rate—the charge which the central Bank of Canada makes on loans to the chartered Canadian banks—it now sets its lending rate at one-quarter point above the yield established each week by bidders for Dominion 91-day treasury bills.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We May Be Growing Too Fast—For Our Own Good

A Moot Question of the Moment Analyzed by David Rockefeller

Probably never in the history of this nation, or any other, has there been so much optimism among businessmen as there is at this moment in the U. S.—which explains why there is such a tremendous demand for capital to expand plant facilities, build this and that, add to equipment and, in general, provide for growth which, in the minds of many at least, will go on indefinitely. Could we be carrying it too far, could we, in fact, be growing too fast—for our own good? Mr. Rockefeller, at the American Life Convention, posed the question and, in his view, certainly there is evidence that we are. What he has to say gives even more weight and wisdom to the Federal Reserve's present policy of credit restraint. Mr. Rockefeller is executive vice president of The Chase Manhattan Bank in New York.

THE demand for investment funds is so great it is taxing the resources of the entire financial community. This is a situation we have seldom encountered in the past, but when we *have* experienced such stringency, it has often been a sign of possible trouble ahead.

Today, some have expressed misgivings that this may again be the case. Are we trying to grow too fast—is our current rate of expansion running the risk of leading to a crash which could be followed by a downward spiral of the business cycle?

David Rockefeller

A brief look at our economic history emphasizes the importance of attempting to keep the economic picture in perspective. Our economy is very prosperous today, measured by any normal standards. We have enjoyed a long period of economic expansion. The general trend of production has been upward since 1938, a period of eighteen years. In that period, we have had only two relatively mild recessions—one in 1949 and the other in 1953-54.

The nation has enjoyed four similar periods of prosperity and expansion in the past century. None has lasted as long as the current period. Even more significant is this sober fact—each of the past periods of general growth ended in a period of over-expansion or speculation that was followed by a depression.

I do not suggest that history necessarily will repeat itself. Historical parallels can be misleading. I do think that past experience justifies our being increasingly alert, as the boom continues, to any signs that our prosperity is unhealthy or out of balance. Everyone concerned with investment has a special responsibility for making sure that we avoid the type of excess that contributed to business downturns in the past.

Our goal is the maximum rate of growth that the nation can sustain without generating an unhealthy and unstable expansion. What is wanted is a balanced growth that is capable of sustaining itself. If we try to grow too rapidly, we risk a repetition of the boom and bust pattern of the past. If our growth is unbalanced as between important segments of the economy, we may also be in for serious trouble.

There has been some evidence in the recent past that we were suffering from unbalanced growth. We moved ahead rapidly from mid-1954 through the end of 1955, spurred on by extraordinary sales of autos and new homes as well as by inventory building on the part of business. With the benefit of hindsight, it seems clear that these fields were then expanding at a pace which could not be maintained, and that an overly generous use of credit contributed to unbalanced growth.

This year we have had a substantial drop in auto production and residential construction; and, fortunately, the over-all impact of these declines has been offset by a remarkable expansion in business investment, and by an increase in consumer purchases of other items. In short, we have gone through what the commentators have termed a "rolling readjustment."

Now, once again, we face the question as to whether we are experiencing the sort of balanced growth that can be sustained. Business capital expenditures are continuing their advance, and are moving onto new high ground. Government outlays are beginning to rise again, as more is scheduled to be spent on highways, schools, farm programs and defense. Spending by consumers has been increasing, too. With wages and salaries rising, and new auto models coming on the market, the prospects for consumer buying look extremely favorable.

But currently, one answer to the question of whether we are growing too fast revolves around our ability to meet all these demands without generating an inflationary movement. The increasing demands on the part of consumers, business and government come at a time when our economy is operating at close to capacity. Employment is at a record level of about 67 million, so there is little leeway to expand production by putting more people to work. Output of many basic materials is pressing against capacity. Thus, it will be more and more difficult to increase the supply of goods and services to satisfy rising demand.

The situation is complicated by the fact that, in a number of industries, wage and salary payments have been advancing more rapidly than the increase in output per man-hour. Experience shows that whenever this happens, prices of industrial products tend to rise. In the long run, industry must raise prices if the cost of labor per unit of output is increased.

This is precisely what has been happening in the past year. Industrial prices have been rising as wage rates have advanced faster than productivity. The average of industrial prices has increased 4 per cent in the past 12 months. Until recently, the cost of living had exhibited greater stability because of a decline in farm prices. However, farm prices have now moved up 8 per cent from their low last December. As a result, the cost of living has climbed 2 per cent since the spring of this year.

It would appear then that we have reached a point where we stand on the verge of trying to grow too fast, if indeed we have not already started. The behavior of prices certainly sounds a sharp warning note. If business were to try to spend more on inventories and capital expansion, if consumers should spend more on autos and other items, and if government tries to spend more on defense, roads and other programs, we certainly will run the risk of over-taxing our economic resources.

Under the circumstances, there is much to be said for the Federal Reserve's policy of credit restraint. Painful though it may be in many respects, the alternative is even more painful. With today's conditions, easy credit might well lead to heavy speculation and over-expansion—distortions that could only be squeezed out through the wringer of a depression.

On the other hand, if we are successful in containing the over-all forces of inflation in the period immediately ahead, we shall have made a substantial contribution toward keeping our economic growth on a sound basis. But the problem is not only one of maintaining an over-all stability in the sense that we avoid inflation, it is also one of maintaining an appropriate balance between the growth in key sectors of our economy.

Today, this question of balanced growth is posed most sharply in the crucial area of business capital investment. Business expenditures for new plant and equipment have been climbing steadily. The current rate of spending—$46 billion for all business—represents a 25 per cent increase in 18 months. This dramatic rise in investment brings up the very important question of whether we are expanding our capacity too rapidly—whether, in effect, we are beginning to build too far ahead of the market.

Business capital investment is one of the most significant spark plugs to economic growth. It is by putting to use more capital that we have been able to multiply the efficiency of our production and thus raise living standards. At the same time, business investment has in the past been one of the most unstable elements in our economy. The traditional pattern has been for business investment to move ahead with great vigor in good years, only to be cut back very sharply when the business curve turned down.

"If we try to grow too rapidly, we risk a repetition of the boom and bust pattern of the past. If our growth is unbalanced as between important segments of the economy, we may also be in for serious trouble. There has been some evidence in the recent past that we were suffering from unbalanced growth. We moved ahead rapidly from mid-1954 through the end of 1955, spurred on by extraordinary sales of autos and new homes as well as by inventory building on the part of business. With the benefit of hindsight, it seems clear that these fields were then expanding at a pace which could not be maintained, and that an overly generous use of credit contributed to unbalanced growth."

Happily, the postwar record shows definite signs of greater stability in this crucial area. One of the reasons the recessions of 1949 and 1953-54 turned out to be relatively mild, is that the declines in business-spending on plant and equipment were relatively moderate and short-lived. The fact that more and more companies are drawing up investment plans, which are geared to the long-term growth of the economy rather than to short-term ups and downs in business, is an important reason for this greater stability in our investment pattern.

However, the immediate problem is not instability which is threatening a decline. It is, on the contrary, a question as to whether we may not

be trying to invest too much—to build ahead our capacity to a point where we shall later have to stop short and wait for demand to catch up. In trying to arrive at some judgment, it is useful to compare the current level of business investment with trends in the past.

First, consider the relationship between business investment and the nation's total production of goods and services, that is, the gross national product. On the average since the turn of the century, the United States has invested about 9 per cent of its total production in new plants and equipment. Ruling out the years of the great depression when investment was abnormally low, the rate is 9½ per cent.

At present, the ratio of business capital investment to gross national product works out to slightly more than 11 per cent. By this method of measurement, then, the current rate of investment is somewhat above its long-term relationship to our total national production, but not drastically so.

Still another way to look at this question is to see how rapidly our productive capacity is expanding. A considerable part of the money business spends each year on new plant and equipment goes for replacement and modernization, rather than for expansion. Currently, replacement accounts for about 39 per cent of the total and expansion for 61 per cent. As our industrial machine grows, the amount that has to be spent to replace worn-out and obsolete facilities, of course, increases.

On an over-all basis, then, we will add about $28 billion to the value of all business plant and equipment during 1956. Since we had the huge total of $725 billion invested in productive capacity at the beginning of the year, current expenditures for expansion will increase our capacity by 4 per cent this year.

Notwithstanding this over-all balance, it does seem clear that a number of major industries are in the middle of expansion programs that will raise their own capacity at a rate faster than their sales can be expected to grow in the near future. In some cases, this may be a catching-up process, but in others companies may be trying to build today the capacity they think they will need to meet the requirements set by growing markets in the years ahead.

But, the fact that a number of industries are expanding rapidly is not necessarily a sign that in itself points to trouble ahead. In the very nature of our economy, growth seldom takes place in all industries at an even pace.

"Our economy can adjust to the shifting expansion requirements of different industries if we can avoid a 'bunching' of periods of very rapid growth in individual industries and if, at the same time, we can keep the over-all growth of our economy on a sound footing. Nevertheless, the very large increase in capacity currently being developed in certain of our leading industries does cause one to wonder whether we may not be trying to grow too fast in certain lines. Certainly, a further acceleration of the rate of expansion in 1957 might well be questioned on grounds that it WOULD *represent the sort of 'bunching' of growth that could lead to very difficult adjustments for the economy as a whole."*

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Before passing judgment on the current level of business investment, however, it seems to me that we need to consider two other very fundamental questions. In a sense they are interrelated, yet it is useful to look at each one separately. The first question is:

"Can we expect consumer demand to rise rapidly enough to absorb the output of the new capacity that is now being installed?"

The second question:

"Is investment now beginning to outrun the nation's savings?"

To a considerable extent, a high level of business investment automatically lays the basis for the heavier consumer demand required to make the investment pay out. This is so because a high level of investment tends to increase output per man-hour, or productivity, thereby lowering unit costs, making it possible to increase wages without pushing up prices. When output per man-hour is rising, therefore, consumer purchasing power expands. Even after adjustment for higher prices caused by inflation, consumer purchasing power has gone up by more than 50 per cent in the past ten years, a rise of slightly more than 4 per cent per year. Thus, in the recent past, consumer demand has fully matched the 4 per cent increase in industry's capacity to produce and the 4 per cent annual rise in the economy's total production.

But, will consumer demand *continue* to rise this rapidly? It seems to me that the effort so many businesses are making these days to expand capacity by increasing efficiency, thus reducing costs, is a favorable straw in the wind. When so many businessmen envisage a continued rise in their sales and are straining their resources to make that vision a reality, there

are powerful forces at work to keep markets growing rapidly. The traditional American genius for effective salesmanship is one of these powerful influences.

Consumer markets are under the influence of the upward pressures exerted by our recent and amazing population growth and by the even more dramatic shift in income patterns. In the past 5 years, the number of families in the middle income market has grown 36 per cent, while the number of all families has increased only 5 per cent. It is significant that a very high proportion of the increase in business capital investment can be traced directly to the ability of more and more families to afford new automobiles, new homes and other items that make for a richer life.

Considering all these factors, it seems to me that the evidence fails to support those who take a pessimistic view of our ability to expand consumption. If we can continue to increase the productivity of our economy and thus raise consumer purchasing power, the growth of this vast middle-income market can be sustained. The maintenance of recent trends in over-all purchasing power, and its heavy concentration in the hands of families with incomes of $4,000 to $10,000, could produce a most striking rise in our ability to consume the products industry is planning to turn out in larger volume.

Now, we ask, "Can our economy also continue to save enough to support the very high level of investment now underway?" This is a second fundamental question that is relevant in reaching a judgment as to whether we are trying to grow too fast. In exploring this question, it is necessary to look not only at business investment, but also at consumer investment. To achieve a balanced growth, our savings must support both our investment in business plant and equipment and our investment in capital equipment for consumer use. Actually, consumer investment in automobiles, new homes and other durable goods is about as large in absolute volume as business investment. Hence, variations in investment by consumers can affect general business activity fully as much as ups and downs in business spending.

Consumer investment can also have a very heavy impact on the market for investment funds. During 1955, consumers invested $52 billion in houses, autos and other durable goods. In doing so, consumers went further into debt to the huge total of $18 billion. This means that 35 per cent of consumer investment during 1955 was financed by a net increase in outstanding debt.

During 1955 consumer debt was rising at a rate that could not be sustained. We could not go on for long expanding mortgage debt by 17 per cent per year, and installment debt by 20 per cent per year. To do so, would have meant keeping some of our most important industries—and specifically housing and autos — under forced draft. We would be growing too fast.

The increase in consumer debt slowed this year. Recently it has risen at a rate of 5 per cent, at a time when consumer income also rose 5 per cent. Moreover, the over-all financial position of consumers still seems remarkably sound. The total of mortgage and other consumer debt amounts to only 37 per cent of today's value of the homes, autos and other durable goods owned by consumers. Fully 60 per cent of all families spend less than one-fifth of their income on the so-called contractual payments; that is, on rent or mortgage payments, installment payments and the like. Only 11 per cent of our families spend 40 per cent or more of their current income on these payments. This is the group where such payments constitute a substantial drain on the family budget. It is fortunate that only about one family in ten falls in this group, but it would be healthier to reduce the number still further.

Nevertheless, it seems clear that it isn't the absolute level of mortgage debt or of installment debt that is a source of widespread concern today. If our economy can continue its rapid economic progress, there would seem to be no reason why mortgage and installment debt should not also continue to grow moderately in the years ahead. Our problem is to keep it from growing too rapidly, as it did during 1955.

Actually, consumers have made a considerable contribution to general economic stability in the past year. The decline in new housing and in automobile purchases has helped make room for the rise in business investment. A look at the grand total of our investment—that is, at both business and consumer investment—shows the current rate is about $6 billion higher than the 1955 average. It would have gone up far more had consumers continued to buy houses and automobiles at the rate they did in 1955.

In the same period, savings have also increased by about $6 billion. This has been due in good measure to a rise in the rate of personal savings from 6 per cent of income after taxes in 1955 to around 7½ per cent now. In addition, depreciation allowances have grown and the Federal Government is running a larger cash surplus. Both of these developments can help supply funds to support current investment.

In over-all terms, therefore, the rise in the dollar amount of savings has about matched the increase in investment. That a reasonable balance has been held is due in large measure to the Federal Reserve's policy of restraint. If we had had easy credit during the past year, the demand for investment funds would undoubtedly have increased much more rapidly than the community's savings, thereby making it much more difficult to contain inflation.

The period immediately ahead promises to be one of the most interesting and important in the nation's economic history. We are undergoing a major test of our ability to keep our economy prosperous without the artificial stimulus of inflation. In other words, our problem is to keep the economy growing but, at the same time, keep it from growing too rapidly.

Our performance so far seems to me to warrant cautious optimism. In the past year, we have successfully negotiated an adjustment in the fields of mortgage and installment debt. We have achieved a level of capital expenditures on the part of business that is fully large enough to support a continued growth in the capacity and efficiency of our productive machine. And we have national economic policies—particularly in the monetary and fiscal fields—that are designed to help hold our over-all growth to a sustainable pace and keep it balanced.

The Best Years Of Our Lives Are Just Ahead Of Us

By **DONALD B. WOODWARD**

OUR economy is made up of and is operated by people. Some very important changes have occurred regarding people and these changes have great implications for the future. Five of them are:

›› The number of babies born in the United States rose from less than two million annually in some of the pre-war years to around four million annually and has continued around the latter figure for more than ten years.

This change in the attitude toward children in many respects is the most striking fact of our times. It greatly influences economic conditions for several decades ahead. In each hour and a half, 696 children are born in the United States.

›› What is happening in the United States is also happening in the world. In each hour and a half, there will be about 12,000 babies born somewhere on the face of the earth. This large number of births continuing year after year does much in shaping both the near and the distant future.

›› As a consequence of the change in births in the United States, we are about to enter a period in which far more couples will marry, purchase housing and household equipment and start having their own children every year than any previous time.

A good measurement of this is the number of females reaching age 18 each year. Currently over one million females reach age 18 each year and this was about the same level as in the 1920s. During the next two decades this number will soar from the present level of slightly over one million each year up to close to two million each year by 1970. This is no guess, for these girls have already been born.

›› The incomes of the growing population of our country have risen greatly. The average family income is now above $5,200 and this is more than double the level of a generation ago. It can be expected that a continued significant rise in the real income per family and per capita in the United States will occur for a long time to come.

›› And what is happening to people? The dynamic feature of the United States economy is its business organizations. The management of these business organizations is far more competent now than it was a generation or even a good deal less time ago. The amount of business education has tremendously increased.

For these five reasons I suggest that a great and consequential series of changes have occurred in the last 10 to 25 years in perhaps the most basic attribute of an economy: *Its people.*

Another major change has occurred which is very important. This is a change in the policies which the people who make up this society are determined to follow. These policies are:

No country ever experienced more profound social changes than we have in the past quarter-century—and even more are coming during the next quarter-century. The expanding birth rate (nearly 700 are born every hour and a half in the U.S.) is posing questions for tomorrow of gigantic dimensions. But mostly it is the people who have changed . . . their conviction that there shall always be jobs, that depressions will not be tolerated. Will it all work out that way? Mr. Woodward, an economist of note, thinks that, generally speaking, it will. Indeed, he sees the third quarter of the 20th Century as one of greater economic progress than in any similar period of world history. We'll continue to have big government, the rising price level will be with us for the rest of our lives, international tensions will constantly re-occur, but, above all, capitalism will prove its merit. Mr. Woodward is chairman of the finance committee of Vick Chemical Corporation and addressed the Controllers Institute of America but is better known to our readers in his previous connection with The Mutual Life Insurance Company of New York.

Not exactly coming but here now is the realization that in the years ahead elderly people will make up a larger proportion of the population. This hard fact, which will be at food stage in the next generation, will pose countless social and economic problems. Happily, this generation is taking steps to prepare for them.

» This society has become dedicated to the maintenance of high or full employment. This dedication is on the statute books in the Employment Act of 1946 and is shared by both political parties and most organized groups. We have replaced such earlier objects of national policy as the balanced budget, the gold standard, the smallness of government with the aim of full employment and have subordinated most other considerations. The same is true of most countries in the world.

» We have, as a country, concluded that scientific research merits far more attention than it has ever before received. The total national expenditures for this purpose are estimated at something like $5 billion currently as compared with less than $1 billion in prewar times. We are more persuaded than ever before that we can improve our welfare by devoting more men and money for scientific research and it has become a fundamental policy to do so.

» As a companion piece to greater research, we are devoting a larger proportion of our income and of our savings to improvement in our plant and equipment, to enable us to produce more and better things either more cheaply, or at least with less of a rise in cost than would otherwise be necessary. The current rate of business investment in plant and equipment is higher than the average of many past years. It promises to continue high.

» We have concluded that in the pursuit of internal welfare and external defense a very much larger government expenditure is necessary than has ever been contemplated in this country other than in war. This expenditure now amounts to something like a fifth of total national outlay and it is less susceptible to fluctuation than most other major expenditures.

» We have, as a matter of policy, reconstituted our monetary system so that it is far less likely to be the cause of business depression than in the past. In the past indeed one of the closest associations in economic affairs existed between the monetary situation and the total of business activity.

Thus we have made major changes in our national policies toward economic affairs as well as having had a very major change in people.

To these major changes I would add one more: the two great world wars and the great depression have combined to disintegrate the neat and seemingly secure world order that appeared to prevail before 1914. The organization of the world is undergoing a vast reorientation from that of the 19th Century which rested on the gold standard and the British Navy. The reconstitution of world order is an anguishing and time consuming process and I expect that we shall live the rest of our lives in that condition of uncertainty and anguish.

What, then, is it appropriate and valid to conclude about the future on the basis of these facts? I have six conclusions:

» The recurrence of great economic catastrophes of the type of the 1930's and the 1890's is unlikely; business policy needs not be formed in the anticipation of general disaster. But this point should not be carried, as it sometimes is, to the extreme view that there will never be significant fluctuations in general business activity again. I deem fluctuations up to the magnitude of 1938 and 1921 still possible.

» We shall experience a rising price level for the rest of our lives; the rise may be irregular but it will be unmistakable. This means that the dollar figures used in accounting will not be dollars of fixed value; you will be dealing with a rubber yardstick.

» Big government—big as compared with standards prior to World War II—will continue indefinitely. The devotion to the thesis that government is best which governs least has largely disappeared. Dealings with government and its forms and personnel will be an important part of your business life for all the rest of your careers.

» Intermittently, there will continue to be alarms and tensions in world affairs. Our distress over the past decade with such incidents as the Berlin blockade, Korea, Vietnam, Israel, communism, socialism, and currently Suez will be repeated at one place and another and in one form and another. This will affect government policies and foreign operations of individuals, business and government. My belief is that major war will be avoided.

» I believe that there will be greater economic progress in this third quarter of the 20th Century than in any other quarter century in world history—and in some important respects more than in all past world history rolled together. By economic progress, I mean improvement in the material welfare of American citizens. And I think, despite the charges of those who belittle materialism, that this economic progress will contribute also to the moral and spiritual welfare of the members of this society.

» The splendor of capitalism, already evident in the results in the United States, will become even more magnificent as this quarter century progresses. With the achievements already made and the still more glorious ones to come, our system can, if it exercises even reasonable diligence and determination, emerge as the complete victor over the muddle headed notions of the socialists and the communists which if followed would take us down the sorry hill to the valley of poverty.

The future belongs to the beneficent system of free capitalist enterprise.

THE SALE AND LEASE BACK IN A TIGHT MONEY MARKET

By **LOUIS GLICKMAN**

THE first element in any piece of real estate is its location. The best constructed property could be almost worthless if it were improperly located. So, for real estate men, the first consideration in considering an investment, is always the location of the offering.

If the location is good, then the second question is whether the property on the site is suited to it. Often it is not suited to the location, but if the property can be converted by a surgical operation, so to speak, into the proper usage, and the site be given its best economic usage, then we consider it further. So, first, location and next, adequacy of improvement.

Louis Glickman

From here on varied considerations come into play. The best tenants get the lowest rents, while the lowest rents by the very best tenants make the safest investments. No one makes an investment without the opportunity of increment. So, the question of tenancy can be related to our investment only at the time the investment is being made. If, in our portfolio, we have at the moment an abundance of high-grade securities, we are more inclined to be a little more risky as to our investment.

In any event, the third consideration is growth potential. Next comes available income from property, and that, of course, is part of the growth potential.

After these things have been weighed, consideration must be given to the amount of cash required for the investment and we then relate the return on the property as a whole to the return on the equity; and, in the process of doing that, we must consider the financing that can be accomplished under the credit conditions that exist at the time the investment is being weighed. The mortgagee feels about the investment as we do. The amount of the mortgage and its rate depend upon both the going rate at the time and judgment of the risk involved; and, as I said, tenancy and risk go hand in hand.

Since all locations are different and each property is different, each one presents a different problem; but if I were compelled to say which consideration is uppermost in my mind, I think I would put growth potential after all other considerations have been gone into.

Our organization has made a great specialty of sale and lease-back deals. I find this one of the most fruitful fields for investment in these times.

The technique of sale and lease backs lends itself to many variations. We have used sale-and-lease-back to solve a greater variety of complex real estate problems than *any other* method.

The sale-and-lease-back technique could be of immense value right now to countless corporations, especially manufacturers who are curtailing their plans for expansion and promotion because of the current tightening in the money market and the rise in interest rates.

There is no question but that many businesses should expand and promote at this time, because the competitive situations in their own industries make it advisable for them to do so. A broad policy of credit stringency can-

Companies everywhere, all kinds of companies, which need funds for expansion, even to keep up with their normal growth, are having a new experience during the present credit stringency with normal sources of borrowing closed to them. Some, which never considered a sale and lease back before, are doing so now. Mr. Glickman suggests that they may hit pay dirt, since a good lease back is still in high favor with investors. He's wedded to the sale and lease back principle and has made a great many of these deals. He is prominent in real estate in New York and has contributed to these pages before.

not be applied by any central bank in a discriminating way. The bank must act, on the contrary, in the broadest possible way. The result is that these corporations are being handicapped today. It is up to those who suffer from the policy, because of their individual situations, to find their own way out.

Accordingly, I suggest the way out for many industrial corporations, especially manufacturers, for new money at this time is to look into their own real estate portfolios. There they may find assets which can be turned quickly into cash without affecting their right to tenure in their own buildings. They may even find that by a change of real estate policy, in addition to placing their hands on needed cash, they may also improve their earnings situation by proper application of the tax laws. All they may need to do is to sell the property and lease it back from the new owner, and to do so, of course, in a single transaction — a "sale-and-lease-back" transaction.

There is no reason for a manufacturing corporation to own the skyscraper in New York in which it may occupy space for headquarters office, or a regional office. It is no sin to pay rent when by doing so you free huge sums of money for new operations. There are investors who prefer, for reasons sound to them, to put their money into real estate, but that investor does not need to be a manufacturing company.

Not every manufacturer could make a sale-and-lease-back deal on its real estate. Some industrial buildings are so constructed, or so located that salability is too limited. I am speaking of properties that have only one use, or very restricted, or specialized potentials. But there are many properties that do have the element of convertibility to other uses which makes them proper subjects for real estate investment, especially where the present tenant is a sound corporation with the highest credit rating.

Naturally the interest rate on the mortgage end of financing in a sale-and-lease-back deal today is bound to reflect the rise in the interest rate generally. When the demand for money is greater than the ready supply it affects all interest rates — on mortgages, on government bonds, on time loans and bond issues. But the sources of mortgage credit should have an ampler supply than the sources of commercial credit, since there are many institutions which must invest in suitable mortgages, if such are available, and these institutions have a steady inflow of funds from savings, from premiums, and from amortization and interest on current mortgages. I do not imply that mortgage money should be plentiful. But ingenious men, accustomed to solving problems, will know where to lay their hands on it.

As far as equity money goes for such sale-and-lease-back transactions, I think that there is plenty of it available. In the judgment of many investors, especially those who have accumulated wealth through their own savings and hard work, real estate is a preferred investment at any time, all other things being equal, and thousands of them are standing by with ready funds, waiting to invest in sound purchases.

» SIGNIFICANT TREND: It never happened before—the white collar worker has caught up with and passed his blue collar counterpart as the biggest single group in our working population.

The number of persons with white collar occupations—those in the professions and related tasks, proprietors and managers, and clerical and kindred workers—exceeds the total number of craftsmen, operatives and laborers, who make up the blue collar classification, by about a half million.

This may be a comparatively small margin considering the numbers involved, but it marks the first time on record that employment figures have shown the white collar group out in front.

Figures going back to the early part of the century show that this development culminates a long-term trend in the evolution of the American economy and the rising tempo of its industrialization and urbanization. Behind it are a combination of social and economic factors revolving around the rising educational level of the population, the acceleration of technological changes in recent years, and the widening of job opportunities brought about by the expansion of the economy and the record level achieved by the people's incomes and their standard of living.

The occupational figures likewise give a clue to the manpower pinch that has been cropping up in an increasing number of areas in recent years. Along with the growth of the economy and rising production needs, here is a major factor in the increasing size of plant and equipment expenditures made by business and industry over the last decade. All indications are that such capital expenditures will stay high in the foreseeable future.

BLUEPRINT OF PROGRESS

To keep prosperity high, government is going to continue doing most of the things it is now doing that were once in the field of private enterprise—and is likely to add a great many more besides

As I look back across the years, I feel that the outstanding as well as the noblest social achievement of our times has been the widening of economic opportunity in our country.


Dr. Arthur F. Burns

We had great prosperity during the 1920's, but the fruits of that prosperity were not shared widely enough.

We carried out significant social reforms during the 1930's, but in the best year of that decade close to 8 million men and women were unemployed.

We practically eliminated unemployment during the 1940's, but a huge part of people's savings was simultaneously wiped out by inflation. Sharp inequality of incomes, mass unemployment, and a shrinking dollar—each of these has been a great destroyer of opportunity through the ages.

Happily, these obstacles to progress do not loom very large as we face the tasks of the future.

Here are a few facts on the diffusion of economic opportunity and well-being in recent times.

First, jobs have been generally plentiful during the past decade. Total civilian employment, which rose from 55¼ to 61¼ million between 1946 and 1952, is averaging 65 million this year. At present women constitute 31 per cent of the nation's work force, which exceeds the highest percentage reached during the war.

Second, a progressive shift has taken place from low-paid and unskilled occupations to better-paid and more interesting work. Ordinary laborers, who constituted 17 per cent of the work force in 1940 and 12 per cent in 1950, number less than 10 per cent now. On the other hand, the professional and managerial group currently accounts for 19 per cent of the work force, in contrast to 14 per cent in 1940.

Third, small and independent business continues to be an important gateway of economic opportunity, despite the spread of giant corporations. Over 4 million independent concerns are presently engaged in various types of business and their number is growing. Indeed, there are more independent business firms today, in relation to the size of the nation's work force, than there were in 1929 or in 1939.

Fourth, our progressively rising national income is being shared widely. In 1955, 54 per cent of American families had a money income of $4,000 or higher, in contrast to 42 per cent with equivalent real incomes in 1947 and 48 per cent in 1952.

Fifth, the average price level has been nearly stable in consumer markets since the early months of 1952. In consequence, the savings recently accumulated by people through bank accounts, life insurance policies, pension funds, and savings bonds have remained virtually intact for meeting life's contingencies and opportunities.

With a high level of employment sustained and with income rising, most of us have been able to work, spend,

***By* ARTHUR F. BURNS**

Once a vast social change occurs, such as the U. S. has undergone in the past quarter-century, there is no turning back. There will be no turning back with us; on the contrary, as Dr. Burns sees it, more changes are in store. We'll do something about the small farmers struggling on farm units too small or too poor for profitable operations. Credit for production loans must be enlarged. Health and nutrition everywhere must be improved. The small business man must get more attention than he has in the past. And on and on, and it will all be done, because the people want it that way. Dr. Burns, at Oberlin College, mapped this blueprint for tomorrow. His views are significant as those of a recognized economist—and, until recently, chairman of the President's Council of Economic Advisers.

save, and invest in an atmosphere of confidence in the economic future.

This impulse for improvement on the part of people is being powerfully reinforced by industrial research and investment. This year, business firms and the universities are spending about $3 billion on research and development, and the federal government is spending perhaps another $3 billion, in contrast to a combined total of $3 billion in 1950. Last year, business expenditures on plant and equipment, made partly to replace outmoded facilities and partly for new or expanding ventures, reached the record figure of $29 billion. This year such expenditures will probably reach $35 billion.

I cite these facts to suggest that the spread of economic opportunity and well-being, which has revolutionized social life in our generation, may be expected to continue in the years ahead. As the number of jobs increases, both working conditions and rates of pay will improve. In another ten years, our nation's total output of goods and services, which is currently proceeding at an annual rate of about $414 billion, may approach the $600 billion mark.

We should not permit this favorable outlook to lull us into the belief that the future will necessarily unfold ever-widening opportunities for people. Economic progress does not come automatically. It requires encouragement of private initiative and protection of incentives on the part of government. It requires both private and public policies for resisting such tendencies as may develop toward either economic recession or inflation. And it requires the vision to realize that not only is the general welfare enhanced, but the base of future prosperity itself is strengthened when we draw into the stream of progress those who have been left behind by its on-rush.

"We must keep before us always the great truth that the largest contribution that the government can make to a widely shared prosperity is by fostering competitive markets and a high level of employment, by encouraging investment in new tools of production, and by improving general education and vocational guidance. When jobs are readily available, and the productivity of labor is rising, the most powerful of all forces are operating to lift low incomes and spread prosperity."

Although the nation at large is enjoying full employment and great prosperity, there are some communities in different parts of the country in which substantial unemployment is continuing. The difficulties of these depressed areas are usually traceable to a shrinking market for the product in which the community had specialized or to outward migration of one or more of its key firms.

It is only proper that the rebuilding of a local economy should depend largely on the initiative of the local citizenry. Yet there is much that the federal government can do to help themselves. It can render technical assistance to local groups in drawing up plans for rehabilitating their economy. It can join the state or locality in extending loans for industrial projects that promise to improve a community's long-range economic outlook. It can contribute to the cost of rebuilding the blighted commercial or industrial sections of a depressed community, just as it is now contributing to the cost of clearing residential slums.

To make substantial progress along these lines, new legislation is needed. Wisely administered, it will serve to ease the harsh adjustments that are often forced on people by our changing economic environment and at the same time add to the resilience of the economy.

A more difficult and more serious problem than the chronic unemployment in a few of our cities is the ineffectiveness of human effort in many of our rural areas. Here we find numerous families struggling on farms that are too small or too poor for efficient operation. Here we find inadequate skills on the part of people and inadequate opportunities for off-farm employment. The remaining poverty in America largely centers in these areas, which are heavily concentrated in the South. Price supports yield little benefit to the small farmer.

The most constructive way of aiding the low-income families in rural areas is to improve their basic education, and their working abilities and opportunities. Credit for production loans must be enlarged. Improved health and nutrition must be promoted. Information services on job opportunities must be established. Off-farm jobs must be created through increased industrialization. The federal government, acting in cooperation with state, local and private groups, has recently established a Rural Development Program along these lines. This program should be expanded, as experience accumulates on ways of improving the level of living in our underdeveloped rural areas.

The economic position of the small businessman also requires attention.

(Continued on page 33)

President's Page

THE TRUST FUND CAMPAIGN MERITS YOUR FULL SUPPORT

FOR practically everyone who has been originating mortgage loans this past quarter-century, one of the most conspicuous facts about our industry is the certainty of change. We have moved from a period of intense demand to one of rather sudden curtailment, from easy credit to tight money, from a period of keen investor interest for loans followed by one when they largely have turned to other investment media.

As significant as these changes have been, and as far-reaching as the affects on our industry have been, the greatest change has been the growth of our industry itself. In less than a generation, the mortgage industry has expanded far beyond what most people in it would have predicted. Growth of the kind which the mortgage industry has experienced entails responsibilities which, I am afraid, we have not yet fully met. For one thing, our industry has not fully fortified itself with the necessary facts about our own business. Each one of us has been impressed, at some time or another, with the need for more complete and authoritative information about some aspect of our business. We have searched hard for the answer to some particular problem and failed to find it. Our industry badly needs to know more about itself, we need more facts about almost every single operation in which we are engaged. It remains conspicuous among the large industries of this country in lacking the necessary statistical data to guide us.

John F. Austin, Jr.

Today, however, we are on the eve of a project which will go a long way in correcting this state of affairs. Three years ago the Research and Educational Trust Fund of the Mortgage Bankers Association of America was organized as a charitable, non-profit trust and two important goals were set for it. The first was to undertake research projects on behalf of our industry, to dig into every aspect of our business, and to explore past experience as a guide for the future.

The second goal is concerned with education in the mortgage industry, a field in which the Association has already achieved notable success. This educational effort, however, was designed to go considerably beyond what the Association is now doing. It is aimed at providing a far more extensive literature on the industry than is now available, and particularly to encourage more young men and women to select the mortgage industry for their careers.

During the initial three-year period of the Research and Educational Trust Fund, extensive planning and preparation have been done toward reaching these two objectives—and some rather significant achievements have been recorded. Last year we held the first Educators Conference at the University of Michigan to which business school deans and associated faculty members from certain colleges and universities were invited. This was an effort to show these men and women what the modern mortgage industry embraces, how it functions and the possibilities it holds for young people—all with the ultimate aim, of course, that they would pass their impressions along to their students. We want to assure this industry of an adequate supply of personnel in the generations to come.

The Conference was a highly successful effort and was repeated this year at the University of Colorado.

During the past three years, members of the MBA Past Presidents Advisory Council and the Board of Governors have made contributions to the Trust, but no general solicitation has been made. Now, with the advance planning behind us, the Trust Fund is ready to actively seek its goals. It needs all the financial support it can get to attain them. It is now asking for the active cooperation of those in the mortgage industry, more specifically from members of this Association.

November 26-30 has been proclaimed Trust Fund Campaign Week. All members will be asked to contribute to the work of the Fund. I hope each and every one will respond. The Fund is a good investment, it is insurance for the future of our business and a better-planned and better-executed operation. When you contribute to the Fund, (and it is tax deductible) you are investing in a better future for your own business because whatever success the Fund achieves will accrue directly to you. Pat Haley of Des Moines is the general chairman of the Drive and a captain has been named for each of the regions of the MBA membership. I earnestly solicit the active and full cooperation of every member in the November 26-30 drive, which will continue until the job has been done.

J. F. Austin, Jr.

PRESIDENT

Mortgage Men T

MORTGAGE bankers are taking to the air these days to gain a new perspective on property, cover more territory, and save time for themselves and investors.

If enthusiasm on the part of those now using private planes is any gauge, it's only a matter of time before greater numbers will look to company-owned aircraft as a convenient means of handling field work.

Over the last ten years, big corporations have grown increasingly dependent on company planes, but it has been a comparatively recent development for those in the mortgage and real estate fields to adapt flying to their particular needs.

Among firms making the most effective use of the air are Stockton, Whatley, Davin & Company, Jacksonville, Florida; Percy Wilson Mortgage & Finance Corp., Chicago; and Philip W. Kniskern & Associates, real estate counsellers, of Philadelphia. These have agreed to share their experiences with THE MORTGAGE BANKER readers, many of whom may be considering a venture in plane ownership.

All speak favorably of their airborne operations, although they admit to early misgivings about "expense" and "luxury." All agree that the airplane is unsurpassed for providing a speedy analysis of property and the physical conditions of surrounding areas that affect immediate and long-term valuations.

For example, an aerial survey reveals locations, origins and capacity of highways and public transportation; proximity of industry, shopping centers, schools and churches; general growth trends, residential, commercial and industrial; and topographic features, wooded areas and other surroundings that may bear directly on the attractiveness of a proposed investment. Investors have been known to make a decision on the basis of an air inspection before looking at the property on the ground.

The Wilson firm is currently using a four-place single engine Ryan Navion. Kniskern has a 1956 Piper Tri Pacer. Stockton, Whatley, Davin first purchased a single engine plane accommodating five, but has since switched to twin engine models, of which it now has two—a Beechcraft Super-18 and a Beechcraft Twin-Bonanza.

Brown L. Whatley, president of the Florida organization, gives three reasons for changing to the larger, more expensive twin engine planes: the safety factor of the extra engine; wider range of operations at greater speeds; and greater carrying capacity with more comfort. The eight place Super 18 Beechcraft cruises at 210 miles per hour and the six place Twin Beechcraft Bonanza, cruises at 200 miles per hour.

"When we purchased our first small plane, we considered it a bold move," Mr. Whatley stated. "I am sure some of my associates harbored some misgivings that perhaps it was as much a desire for luxury as the meeting of a real need. I believe I felt a little that way myself.

"However, its value was very quickly proven, and the airplane is now a very important part of our transportation program. During the past 12 months, our planes have made 226 trips, some as far as 2,000 miles from home base. They have flown 81,500 miles, have carried 383 passengers, and traveled 163,117 passenger miles."

As an example of the advantages of efficient air transportation, one of the company's employees, together with an investor representative, recently visited nine different communities, made inspections of loan offerings in each and returned to the home base in a single day.

Percy Wilson Mortgage & Finance finds the Navion, with a cruising speed of 140 miles per hour, well-suited to the tract inspections in the Chicago region and to trips of several hundred miles in the middlewestern area the company serves. On longer hops, executives prefer the commercial airlines.

Robert H. Wilson, president, and his brother, Theodore, vice president, are both proficient as pilots. Robert Wilson has been flying for nineteen years. From the plane's home airport at Half Day, Ill., a few miles from Lake Forest where both Wilsons reside, they find that business trips which would take two or more days by train or car can be condensed into a day or less. Flying is particularly convenient in reaching small communities where regular air or train service is poor or non-existent.

By utilizing Meigs Field, Chicago's lake front airport for smaller planes, Wilson representatives are able to meet investors at a convenient location, take them aloft for an hour or two and show them property areas that would otherwise require a full day to visit. Sometimes it is possible to land at a nearby airfield to make a ground inspection. In any case, the view from the air gives a much better idea as to how the project ties in with general development trends and transportation.

For example, Robert Wilson and I. C. Prouty of Continental Assurance Company's mortgage loan department recently made a flight to Michigan City, Ind., to see a proposed development. They left Meigs Field in Chicago shortly after lunch, and by 2:30 Prouty was back in his office. To drive would have meant a wearing trip of over two hours each way through the South Chicago-Hammond-Gary industrial area.

Builders are equally appreciative of the availability of the Wilson plane, which helps them in locating and selecting land for development.

Take to the Air

And they're flying high, putting the airplane to work in their business on a profitable basis. There is a big savings in executives' time—no distance seems out of the question as far as trips go. Some of them are finding the view from the air is just what is needed to look at a piece of property. Too expensive? No, not if you have the type of operation where an airplane can be put to work and made to pay for itself. While the use of aircraft by mortgage men is relatively new, it has long been a standard part of operating procedure in many other industries. Some have been operating executive plane fleets for years. Many companies favor the roomy twin-engine type, which accounts for about one-half of the industry's total volume of sales, which in 1956 probably ran around $100 million. In units, that's about 6000 aircraft. American business firms have invested about $300 million in aircraft and are currently spending about $150 million a year in maintenance.

Philip N. Kniskern, partner, Kniskern & Associates, cites these reasons for satisfaction with the Piper Tri-Pacer:

1. Low initial investment. (At less than $8,000, it's the lowest-priced four place plane on the market.)
2. Low operating and maintenance costs.
3. High wing construction affording excellent ground visibility.
4. Reputation for stability and safety.
5. Adequate range of 400 to 500 miles (four hours flying time) and good cruising speed of 125 to 130 miles per hour.
6. Simple to fly and possesses fine small field characteristics.

Mr. Kniskern, who, like the Wilson brothers, does his own piloting, mentions the following as typical of operations since his firm acquired a plane:

"A prominent Philadelphia appraiser had three appraisals to make —one in suburban Philadelphia, another near Peekskill, N. Y., and a third in southern New Jersey. All of the detailed statistics had been accumulated, but it was necessary for this appraiser to make a physical inspection of the properties. Considering the fact that about ten hours driving time was involved, it was anticipated that it would take more than two days to make these inspections by normal means. It was decided to fly, and we made the trip and were back in the course of five hours."

Aerial photography is readily available to the private plane owner and is frequently used in various phases of the mortgage and real estate business from locating ground, through financing and sales promotion. FHA, VA and many investors have recognized the value of aerial photographs and are encouraging their inclusion with mortgage application submissions.

With nine offices scattered from the northern boundaries of Florida to the southern keys and representation in several Georgia cities, Stockton, Whatley, Davin & Company finds its aircraft answer an important communications purpose and effect economies in inter-office travel. The company maintains a flight schedule information sheet to combine trips wherever possible, and thus cut passenger mile operating costs of the two planes.

All persons authorized to use the planes are urged to make flight requests as far ahead as possible. One official is responsible for clearing requested flights. When a request is approved and a plane is reserved, a form is completed and copies are sent to all department heads.

This form indicates date and hour of departure, destination, number of passengers, and scheduled return. Any executive with business requiring a trip to the scheduled destination or any point enroute is given an opportunity to go along on the scheduled flight. John D. Yates, Vice President and Manager of the Mortgage Loan Department of Stockton, Whatley, Davin & Company, is a competent pilot himself. During the past year he personally piloted the company's planes 441 hours.

Twin engine craft are adaptable and convenient for extended journeys. When the Mortgage Bankers Association of America convened in Chicago

in October, one of the Stockton, Whatley, Davin & Company planes transported company representatives to the Convention, landing at Meigs Field, on the lake front, directly across from the headquarters hotel. Also landing at Meigs Field was the Aero Commander of the Colwell Company,

Stockton, Whatley, Davin & Company use two planes and both are constantly in the air, taking the firm's executives on business trips. A twin-engine Beechcraft Super-18 (above) ranges up to 2,000 miles from its own base in Jacksonville, Florida.

Philip W. Kniskern & Associates, Philadelphia, use a Piper Tri Pacer and have found that it affords excellent ground visibility with its high wing construction. Mr. Kniskern (above right) and Donald F. Joos are studying a map of the properties they intend to inspect near Philadelphia.

Robert H. Wilson, president, Percy Wilson Mortgage & Finance Corp., Chicago, and Ira C. Prouty, mortgage loan department, Continental Assurance Company, board Wilson's Ryan Navion plane at Meigs Field in Chicago for quick trip to Michigan City, Ind., to look at projected development.

Los Angeles, which flew the entire distance from California. This is the same type of two-engine plane used by President Eisenhower. Another was Robert Tharpe of Atlanta who has been flying his own plane for several years.

What does it cost to own and operate a plane? You can pay anywhere from $7,895 (average price of the Piper Tri Pacer) to $125,000 for a Beech Super-18 like the larger of the Florida firm's two planes, or more if you need to carry over seven passengers. Prices rise sharply when you get into the twin engine craft. For all except the largest mortgage firms with far-flung branches, a four-place single engine plane with maximum cruising range of 400 to 600 miles is probably adequate.

On operating and maintenance costs, Brown Whatley said, "We do not believe that any figures we could provide would be of value without their relationship to results obtained."

On Wilson's Ryan Navion, maintenance and ownership expense, exclusive of fuel, runs between three and four thousand dollars a year. In 1955, the breakdown was:

Depreciation	$2200
Labor	551
Rent	527
Insurance	524
Supplies and miscellaneous	45
	$3847

Kniskern figures depreciation at $1840 per year, storage at $300, and maintenance at $200, a total of $2340, and adds, "Variable costs such as gas, oil, and miscellaneous fees run approximately $3.50 to $4.00 a flying hour."

What about the future of aircraft in the mortgage business? The helicopter is certain to come in for increased consideration, although it is a controversial subject at present. Whatley is skeptical about it because of slow speed and limited carrying capacity. Kniskern concedes it will have its place, but anticipates a long wait before it becomes economically feasible. Wilson is the most optimistic of the three, going so far as to state he expects his next plane to be a helicopter.

"Development is coming along so rapidly that within a few years prices will be more realistic and speed greater, causing helicopters to take the place of small fixed wing aircraft," he predicts. One of the chief advantages of the helicopter is that it can be flown at extremely low ceilings under marginal conditions.

"We don't use our company plane unless we have ideal weather," he points out. "This puts limitations on it. The average private pilot is not proficient enough to fly under low

Mortgage men work in their planes as well as use them for transportation. A conference in the air shows Stockton, Whatley, Davin & Company officials discussing a project.

Donald F. Joos, Benjamin Franklin Federal Savings & Loan Association, Philadelphia, (left), and Philip N. Kniskern, in cockpit of Kniskern's Piper Tri Pacer. They have a map of project before them.

Mr. Wilson (left) pilots plane as Mr. Prouty studies plat map with relation to terrain they are going to inspect.

instrument conditions. However, the helicopter can fly with very low ceilings, letting down in poor weather with complete safety."

Ability to land in downtown locations or at building sites will cut down commuting time to airfields and greatly increase the utility of the helicopter, Wilson says. Better contact between downtown and branch offices in the same metropolitan area through airlift is another great advantage the helicopter offers, as Wilson sees it.

Whatever type of plane a company flies, it is certain to give the impression to the client that the firm he is dealing with is progressive and modern-thinking. Its prestige value is considerable, aside from its tangible benefits as a time-saver and the new vantage point it offers for studying property.

BLUEPRINT FOR PROGRESS

(From page 28)

During the past generation certain basic changes in the economic environment—particularly, rising taxes, the accelerating pace of technology, and the growth of national advertising—have complicated the problems of organization, survival, and growth of smaller businesses. Small firms have always had little or no access to the public markets for capital. In the past, however, they were able to expand their plant, equipment, and markets by ploughing profits back into their businesses. The extent to which that can be done nowadays is severely limited by the heavy burdens of taxation.

We must recognize this and other impediments facing smaller businesses. Some tax relief for small businesses is long overdue. The procurement policies of government need to be simplified with a view to facilitating and extending the participation of small business in government contracts. The credit needs of sound small businesses should be met more fully. Legislation to enable closer scrutiny of mergers should be enacted. The burden of paperwork imposed on small enterprises should be reduced. Such measures are desirable in the interest of improving the opportunities of small businesses to thrive and in time to become larger, so that they may challenge the primacy of old established, and often overgrown businesses.

Here I have tried to sketch a few ways in which the base of our nation's prosperity can be strengthened. There is room, indeed considerable room, for widening economic opportunity and improving the workings of our economy. But as we bend our energies toward this high objective, we must steer clear of creating pockets of special privilege in the name of widening opportunity. We must keep before us always the great truth that the largest contribution that the government can make to a widely shared prosperity is by fostering competitive markets and a high level of employment, by encouraging investment in new tools of production, and by improving general education and vocational guidance. When jobs are readily available and the productivity of labor is rising, the most powerful of all forces are operating to lift low incomes and spread prosperity.

» 70c OF EVERY $1: Wage and salary payments and supplements now represent 70 cents of every dollar of national income. This is a new high proportion, and compares with a ratio of 64 cents in both 1950 and 1940, and with less than 60 cents in 1929.

The seasonally adjusted figures at annual rates show that compensation of employees made up $237.2 billion of the $338.7 billion of national income in the second quarter of this year. Nearly $14 billion of the compensation total consist of supplements to wages and salaries, largely employer contributions to private and public retirement and welfare funds. Over the long term, supplements to wages and salaries have shown a greater rate of growth than other principal elements of national income.

No Reason for Doubt

THE construction picture is bright. Construction rose to an all-time high of $20 billion for the first six months of 1956. This was 2 per cent over the record set in the first half of 1955. If continued at the present rate for the remainder of the year, this will result in about $44 billion for over-all construction in 1956—about $1 billion above 1955.

And the long range prospects are staggering. Construction's 10-year outlook is about $600 billion. Actually, today's huge dollar volume of building obscures the fact that we have been *underbuilding* for many years.

Despite the recent slowdown in home building, there are several important reasons why next year will be another record year for the construction industry. Some of these are:

» Most of the medium and large size corporations are going ahead full speed on their expansion programs. Some smaller concerns are postponing expansion outlays, pending the time when money will be cheaper.

» Business is good, with no sign of a downturn. Unemployment has reached its lowest level ever in peacetime. A record 66.5 million persons are now employed. The annual rate of personal income is the highest in history. Average take-home pay is at an all-time high.

» Nationwide supplies of building materials should be adequate, with increased capacity and high productivity sufficient to preclude all but spot shortages in steel and maybe cement.

The dollar value of new highway construction and expansion of privately owned utilities may reach $5.5 billion in 1957. The most significant gains among utilities will probably occur in railroad, telephone, gas plant and light and power firms. This can be supported by merely noting the expansion programs of the American Telephone & Telegraph, General Electric, Westinghouse, Niagara Mohawk, and at least a dozen of the nation's larger railroads.

» Highway construction is reaching a much faster pace after lagging for years. This is partly due to the government's multi-billion dollar Federal aid program now getting started.

» Private spending for new industrial plant expansion apart from the utilities may reach $3.3 billion in 1957, compared to an estimated $3 billion which the Labor and Commerce Departments anticipate for 1956.

» New commercial building outlays in 1957 will probably top 1956 by 10 per cent.

» Construction of public schools is expected to soar to another record. This is anticipated regardless of the outcome of President Eisenhower's School Construction Bill.

Here is a great public need, and I anticipate that the President's proposed School Construction Bill will be passed, after being temporarily shelved in a political snarl. This fine program had been carefully explored to meet the needs of individual communities.

In analyzing construction for 1957, I have taken into account the decrease in housing starts which are currently hurting the industry.

Housing starts are running about 17 per cent behind the 1955 rate. Builders throughout the nation will have started about 1,070,000 units by the end of the year, a decrease of about 250,000 under 1955.

There are several reasons for the downturn in home building, the principal of which is tightness of mortgage money. Money will continue tight until the elements threatening inflation have been checked.

Last July the government placed a down payment requirement for home loans guaranteed by VA. It also increased the required down payment for FHA loans.

Loans backed by VA and FHA constitute more than half of all mortgages on new homes and home improvement financing.

Recently rising interest rates reflect the relative shortage of lendable funds. Thus, mortgages become less attractive for long term investments. The higher minimum down payments, slowdown on mortgage handling and limitations on savings and loan associations for borrowing from the Federal Home Loan Banks have served to hold down the supply of mortgage money.

Then, too, the Federal Reserve has tightened credit because it feared the inflationary consequences of the current wage increase might lead to a dangerous price spiral. Wage boosts come at a time of renewed business growth and substantial credit expansion. In this, Federal Reserve has two distinct objectives—keeping the index of industrial production below 145, and halting price rises.

Then there is the high cost of construction—both labor and materials. Builders report that construction costs have gone up along with land cost, to up the price of new homes. They point out that over-all costs are up 6 per cent over 1955. The public is not sympathetic to this rise in cost.

A careful study of these deterring elements indicates we need not be discouraged with the outlook. There are indications that housing starts will continue at present level until well into 1957 and then pick up to a higher level. Some of the encouraging signs:

» Builders are finding ways to hold costs through the use of materials and designs that will reduce "on-the-job" labor. For example, many are now using dry wall construction and more prefabricated materials. Along with other producers, National Gypsum will continue the effort to find better and less expensive construction materials.

» Home owners are finding new stimulus for buying new homes by trading in their present residence under the revised trade-in code formulated by FHA. The decline in new

about Housing Outlook

The outlook may be a bit obscure at the moment but the fact is that, despite the millions of units and billions of dollars that have gone into housing in this period of heavy construction, we've actually been underbuilding. The great demand which is still here will prove this during the next several years as we continue to build to meet it.

***By* MELVIN H. BAKER**

Chairman, National Gypsum Company

house construction does not at all indicate that the market is saturated. We merely have to consider the population surge to realize the market potential is ever increasing.

A recent survey conducted for *Look* magazine indicates that about 2,250,000 families are now seriously considering the purchase of a new home by the early part of 1957. This may present some indication of what people want.

As to the prospects for easier credit, this is difficult to pin down. But we do know this: Every element that goes into the Gross National Product is either strong or rising. There is nothing in sight to indicate this will be revised.

While I am concerned over credit restrictions, I do not view the housing situation with grave alarm. Thus far, there's no sign that the decline in starts indicates any collapse in the housing market. Demand for new houses is still strong—vacancy rates are low and prices of existing homes are firm.

The recent marriage and birth rate is astounding even to the most optimistic forecasters. Those who study population trends see the increase in births continuing on into the 1970's.

Even at present birth rates, population is expected to reach 190 million by 1965. This high rate of births and marriages will create a need for more homes and in fact more of all kinds of buildings necessary to serve a larger community.

And, in thinking of current needs, consider data compiled by the F. W. Dodge Corporation in which are shown a need to supply more for decent living quarters of our present population.

In addition to housing new families, we are *losing* homes at the rate of about 300,000 units a year from fires, floods and other causes.

In a prosperous economy, there is the urge for better living from families constantly being upgraded into higher income groups. In 1949, more than half of our families had total incomes of less than $3,000 a year. Today, only about a third are in this bracket. With full employment and high wages, this up-grading process will continue.

All this adds up to a demand in excess of that for 1955 when 1,330,000 homes were started. And with this surge will come greater demand for schools, stores, offices, utilities, highways, churches and the like.

A further measure of potentials may be had by evaluating the amount spent for construction to the Gross National Product. In 1925, the amount spent for construction was equal to 13¼ per cent of the Gross National Product. From 1950 through 1955, new building construction was maintained at a ratio ranging from 9.5 per cent to 10.9 per cent of Gross Product.

Statistical records of the past 30 years seem to indicate that about 10 per cent of our peacetime economy will go into construction. That is total building after eliminating engineering projects such as roads and bridges.

The U. S. economy is now producing at the rate of more than $400 billion a year. This will probably reach $500 billion by 1965, when new building should reach about $53 billion—or almost $10 billion more than this year.

How It Looks for

NINETEEN fifty-seven will be a very prosperous year—so prosperous in fact that it could be a "boom" year. Employment will continue to rise, with unemployment being held down to a virtually irreducible minimum. Business investment in plant and equipment will continue to surge ahead, providing one of the strongest motivating forces for the boom. Government spending, which has risen very little in recent years, will start upward, with state and local government expenditures accounting for most of the rise. Total personal income will continue to advance steadily, and this will make possible a substantial increase in consumer spending. I believe, however, that the mood of the consumer in 1957 will be a restrained one. His spending will rise, but at a much slower rate than during the boom of 1955.

Total spending during the coming year is likely to rise by over $20 billion. The magnitude of this increase can be more clearly seen if it is remembered that during the first half of 1956 the rise in total spending has been only $6.5 billion. The expected increase in spending next year is therefore of very substantial proportions and will strain to the limit the productive capacity of our economic system.

While I do not have many doubts about the level of business activity next year, I am nevertheless seriously concerned about the effect on our economy of as large an increase in spending as that which I have pictured. The Gross National Product, i.e. the value of all goods and services produced in the United States, is at present running around $409 billion. In the coming year, we will probably be able to increase our physical output of goods and services by about 3.5 per cent, or by $14 billion in constant prices. If spending actually increases by over $20 billion, as I expect it to do, it does not require an economist to figure out what must happen to prices. I am afraid that we are at present headed for a seriously inflationary situation. Despite the best efforts of the Federal Reserve, it is doubtful that price rises can be avoided altogether. Perhaps the best that can be hoped for is that the tight money policy will curb spending sufficiently so that all-out inflation and violent speculation can be averted.

In this framework of a booming economy and rising prices, what is likely to happen to the housing industry? Further, what steps, if any, should be taken by government to alter the expected situation in the housing market?

At the beginning of 1955 the rate of private housing starts reached the highest level achieved since the all-time record year 1950. In December, 1954, homes were being started at an annual rate of 1,478,000, and in January, 1955, the rate was again over 1,400,000. In the following months, however, the rate of starts began to decline slowly but steadily; and this decline continued all through 1955 and into 1956. By January, 1956, the rate had fallen to 1,200,000 and there have been three months this year in which the rate has fallen below 1,100,000. Total privately financed housing starts for the full year 1956 will probably amount to 1,100,000, compared to over 1,300,000 in 1955.

As might have been expected, this decline in output of an important industry has evoked a storm of protest. We have heard dire predictions that unless something is done, the rate of starts will fall to 800,000 or even 500,000. The mortgage lending industry has been accused of withdrawing funds and choking off a vital segment of the economy. The Administration has been charged with disregarding the housing needs of the country. The Federal Reserve Board has been attacked for its tight money policy. So-called "emergency meetings" have been held in the building industry. All of this concern has been quite natural and desirable, but unfortunately very little real thinking has been done in an attempt to understand the basic causes for the decline in housing output, nor has there been much of an attempt to consider the housing situation in relation to the problems of the economy as a whole.

The present rate of 1,100,000 housing starts is not a low rate. There have been only three years in our history—1950, 1954, and 1955—when privately financed housing starts have exceeded 1,100,000. There has been only one year—1955—when the amount of money spent on new residential construction exceeded the present rate of spending. The first point to get clearly in mind is that the residential construction industry is not experiencing a depression. It is vigorous and prosperous.

Tight money is certainly not the only reason why there has been a reduction in the rate of housing starts. There has been a very rapid and a very substantial increase in the price of homes in the postwar period—an increase that has far outstripped the increase in the general cost of living. When the price of a product rises substantially faster than average family income, as homes have done, it is obvious that more and more potential home-buyers are being priced out of the market.

There is a limit to the number of new homes which our economy can absorb. This limit is not a fixed limit. It varies with the rate of family formation, with the prosperity of the economy, with the degree to which unsatisfied demands have accumulated in the past, with the migration of the population, and with the rate of demolition of outworn structures.

Before we can evaluate a given volume of home building as too high or too low we must of course look into all of these factors and attempt to estimate what volume of homes the market can reasonably be expected to absorb year after year. We have made such studies at Prudential. Long before the recent decline in housing volume we estimated that the sustainable level of housing output over the period 1956-60 was about 1,100,000 a year. Since publication of these reports, volume has in fact fallen to this sustainable level and it is significant that once having reached that figure it has leveled off on a plateau. Performance this year therefore ap-

Mortgages in 1957

Appraisal of the Prospects

- **Mortgage money will be tight but not as tight as for other forms of credit**
- **Funds of institutions which have been traditional buyers of mortgages will increase some next year**
- **Mortgages will not command as large a gross yield differential over other investments as often has been the case**
- **Any softening of rates in the mortgage market appears out of the question**
- **Any return to the days of excessively easy money would be disastrous for the economy**
- **Serious inflation in this country now is a distinct threat**
- **Continued government fixing of FHA and VA rates will hit these loans hard**
- **Housing starts will be at the rate of about 1,100,000—a good year by reasonable standards**

***By* GORDON W. McKINLEY**

pears to support the idea that 1,100,000 is a figure which can be maintained for a number of years into the future.

The recent decline in the volume of home construction does not constitute a crisis, but on the contrary is an orderly adjustment to a volume which can be maintained in the future. Suppose, however, that we are mistaken in our estimates. Suppose that there is actually a real market demand in this country for considerably more than 1,100,000 homes annually. In that case, should down payments be lowered further, should the tight money policy of the Federal Reserve be relaxed, and should government provide further new funds in an effort to stimulate the housing industry? The answer is an emphatic "no."

In the coming year this country will be faced with an extremely inflationary situation. The cost of living index has already advanced more in the last three months than in the preceding three years, and further price increases are in sight. Under these circumstances, it would be disastrous to turn to an easy money policy. If we are to avoid a runaway boom in the coming year we must maintain a tight curb on the economy. Every industry, including the housing industry, must be satisfied with less funds than it would like to have. Current price rises are the signal that we are trying to build more factories, more roads, more homes, more automobiles, and other capital and consumer goods than the economy is able to produce within a short period. The only way of avoiding serious inflation is to limit the volume of funds bidding for our output.

I do believe, however, that the government has for some time been exercising one control which is inexcusably discriminatory and which has hurt, and will continue to hurt, the housing industry. This artificial control should be removed. I refer to the maximum limit on the interest charge under VA and FHA mortgages. In a tight money market, the limitation on the VA and FHA contract rate can have only one effect—the drying up of mortgage funds available under government guaranteed or insured contracts. Homebuilders and homebuyers should have an equal opportunity with other borrowers to bid for available funds. The interest rate maximum, along with practical limitations on discounting, prevents the building industry from having a fair chance at available funds.

What volume of housing starts, then, can be expected in 1957? Housing output during the coming year will be maintained close to the 1,100,000 start level. Because of rising prices and the increasing size of the average home, spending on new residential construction is likely to rise by about one billion dollars.

During the coming year, we are thus likely to see a rapidly expanding economy, with prices unfortunately also rising. Housing output will remain at about the present level, but spending on residential construction will be up about $1 billion.

What does all this mean for the mortgage market? Will the funds necessary to finance the $1 billion of additional home spending be forthcoming fairly readily? Or is there likely to be a further strain on this market, with rates continuing upward?

The mortgage market is not an isolated money market, affected only by the rate of housing starts and the turnover of existing homes. It is instead a submarket—a part of the total market for long-term funds. Because of the ability of lenders, and borrowers, to shift out of one submarket into another in response to varying needs and varying interest rate differentials, the mortgage market is very much affected by what is happening in the market for other types of long-term funds. What, then, is likely to be the situation in the overall capital market during 1957?

The increase of over $20 billion in total spending during 1957 may be partially accomplished through a further increase in the velocity, or turnover, of money. People may simply make more extensive use of the supply of funds already available. But it is obvious that, with business activity moving ahead strongly, with business plant and equipment expenditure programs continuing to advance, with the dollar volume of residential construction showing some increase, and with state and local government

(Continued on page 39)

1957 Deadline for Seminar Students to Get School of Mortgage Banking Credit

Next year is the deadline for students who attended the MBA Mortgage Banking Seminars, Basic or Advanced beginning in 1948, to get credit for their work in the successor School of Mortgage Banking. What this means is that those who attended the Seminars can get full credit for their work toward a graduation certificate in the School if they will act now. More specifically, the regulations provide for:

›› Any student who previously attended the Basic Seminar at either Northwestern or Stanford Universities may receive credit equivalent to attendance at Course I of the School of Mortgage Banking, and by satisfactorily completing Home-Study Program I(a), consisting of 8 home-study assignments having to do with financial institutions, and Home-Study Program I(b), consisting of 8 home-study assignments based on the textbook *Mortgage Banking*, may be admitted in full standing to Course II of the School of Mortgage Banking and will thus be eligible for completion of the curriculum and graduation. Costs, including all home-study assignments, report forms, study materials, textbooks, grading, etc. for Home-Study Programs I(a) and I(b) will be $62.50 total.

›› Any student who previously attended both a Basic Seminar and an Advanced Seminar at either Northwestern or Stanford may be awarded credit for both Courses I and II of the School of Mortgage Banking. Eligibility, however, for admission to Course III will necessitate satisfactory completion of Home-Study Programs I(a) and I(b) as described above, plus Home-Study Program II(a), consisting of 7 home-study assignments dealing with the economic factors of mortgage banking and the work of the Federal Reserve System, and Home-Study Program II(b), consisting of 7 home study assignments concerned with the analysis of financial statements of the industry. Costs, including all home-study assignments, report forms, study materials, textbooks, grading, etc. for Home-Study Programs I (a), I (b), II (a), and II (b) will be $125.00 total.

›› Any former Seminar student who has attended a Basic Seminar and an Advanced Seminar, and who subsequently has completed a thesis and been awarded the Certificate of Merit is eligible for admission to Course III of the School of Mortgage Banking, and may subsequently be graduated simply by attendance at Course III of the School.

The Committee has been specific in directing that the home-study programs as specified are prerequisite to admission to the advanced courses, and the policy of not admitting students prior to this completion will be followed. In each case, the necessary assignments for qualifying a student to either Course II or Course III, as the case may be, must be satisfactorily completed at least 30 days prior to the opening of the School session which the student plans to attend.

It is the specification of the School curriculum to cover all facets of the field of mortgage banking, and to make available to those in attendance the wealth of information which will be professionally useful in their day-to-day operations. The philosophy of the School, however, goes far beyond this in that it is designed to prepare the individual as a true professional mortgage banker who is knowledgeable in all aspects of the mortgage banking industry. The Certificate of Graduation awarded upon completion to all those students who are employees of MBA member firms will well attest to the professional status of the recipient.

Any former Seminar student wishing to be admitted to the School of Mortgage Banking with advanced credit should complete the blank on this page and return it to Lewis O. Kerwood immediately. Because of the time involved, any person planning to register in the School during the summer of 1957 must begin immediately on his home-study assignments. These materials will be mailed as quickly as the blank is returned. Attendance in the summer of 1957 has been established as the deadline for the admission of former Mortgage Banking Seminar students to the School of Mortgage Banking with the awarding of advanced credit.

← Even though the 1957 sessions of the School of Mortgage Banking are six months away, former Seminar students must act now so there will be time to complete the home study work. If you have a Seminar student in your organization, be sure he is advised of this announcement.

Lewis O. Kerwood, Director of Education and Research
Mortgage Bankers Association of America
111 West Washington Street, Chicago 2, Illinois

I request admission to the School of Mortgage Banking with advanced credit for the following:

(1) Attendance at a Basic Mortgage Banking Seminar held at ______________________ (Place) University on ______________ (Date) I wish to qualify for admission to Course II of the School.

(2) Attendance at a Basic Mortgage Banking Seminar at ______________________ University on ______________________ and an Advanced Mortgage Banking Seminar at ______________________ University on ______________________.
I wish to qualify for admission to Course III of the School.

(3) Attendance at a Basic Mortgage Banking Seminar at ______________________ University on ______________________ and an Advanced Mortgage Banking Seminar at ______________________ University on ______________________, and an Award of Merit certificate for the thesis entitled ______________________.
I wish to apply for admission to Course III of the School.

Remittance in the amount of $______________ to cover the home-study portion of the curriculum which will qualify me for the next advanced Course as stipulated in the directions is enclosed. Please send these materials to the address below in order that I may begin work on the home-study assignments immediately.

NAME: ______________________
TITLE: ______________________
COMPANY ______________________
ADDRESS ______________________
CITY-STATE ______________________

HOW IT LOOKS FOR MORTGAGES

(Continued from page 37)

spending rising even more than in previous years, the demand for net new funds in 1957 will be tremendous.

Of all major borrowers, the only agency which will not be pressing for more funds in 1957 will be the Federal Government. The Federal Government is likely to show a cash surplus of as much as $5 billion and the repayment of this much of the public debt will relieve some of the strain on the capital market. But even with this alleviating factor, the total net new demand for long-term capital funds over and above that supplied by repayments of existing debt is likely to rise from $34 billion in 1956 to about $37 billion in 1957—an increase of $3 billion.

While the demand for money will rise by $3 billion in the coming year, there will also be an increase in the volume of savings available to satisfy this demand. And the increase in savings in 1957 is likely to be just about equal to the increase in demand for funds. With savings and borrowing both rising by $3 billion, it might at first glance be concluded that the capital market in 1957 will present no problem. But such a conclusion would ignore a very important fact about the present capital market. In 1956, the supply of savings will fall $5 billion short of meeting the demand for capital funds. If savings in the coming year increase only as much as the demand for funds, it is clear that once again, in 1957, we will be faced with a $5 billion deficiency in capital funds. Once again, as in the present year, the banking system will be called upon to create $5 billion of extra money in order to make up the deficiency in savings. The true test of the capital market during the coming year will therefore revolve about the capacity of the commercial banks to supply this extra $5 billion.

A glance at the consolidated statement of condition of the banking system indicates clearly that, unless the Federal Reserve creates a substantial amount of reserves through open market operations during the coming year, the commercial banks will not be able to supply the extra funds demanded by the capital market. The commercial banks began the year 1956 with negative free reserves of $500 million. That is, they were in debt to the Federal Reserve Banks by $500 million more than the amount of their excess reserves. In a situation such as this, the banks can expand their deposits only by going deeper into debt to the Federal Reserve. The Federal Reserve Board has continued throughout this whole year to hold the banks in a negative free reserve position, thus exerting tremendous pressure on them to curb their lending activity.

We can conclude then that the capital market picture in 1957 will be very similar to the capital market picture of 1956. Demand for funds will be $3 billion higher and savings will be $3 billion higher. But savings will still be $5 billion short of supplying total demand, and the banks will be in no better position to make up this deficiency than they have been in recent months.

Now, what does this mean for the mortgage market? It means first of all that mortgage money will be tight, since this submarket will of course reflect conditions in the overall capital market. But over and above this general picture, are there not special influences which may make the degree of tightness in the mortgage market different from that in the capital market as a whole? There is, for instance the fact that housing will not expand in 1956 as fast as the rest of the economy. Second, there is the fact that savings flowing into institutions which traditionally invest in the mortgage market will rise in 1957, thus providing increased funds to a market whose demand will be up only slightly.

The influence of the two factors will keep the 1957 mortgage market less tight than other money markets. All capital markets will be tight, but mortgages will not command as large a gross yield differential over other investments as is sometimes the case. Because of the increasing relative attractiveness of alternative investments, there will undoubtedly be in 1957 a small yet steady flow of funds out of the mortgage market into other investment markets. Some investors, such as commercial banks and life insurance companies, who operate in the mortgage market but also in other markets, will cut down the amount of money going to mortgages and shift a portion of their investment flow to those markets where yields have shown the greatest relative gain. This outflow of funds from the mortgage market will be sufficient to preclude any softening in mortgage loan rates.

In a situation such as that facing the country today, with spending outstripping productive capacity and the demand for funds exceeding the supply of savings, any easing in the tight rein on credit would be disastrous. Yet there are those who, either because they do not realize the explosive nature of the current situation or because they consider their own business or political interests as more important than the welfare of the nation, are bringing strong pressure on our monetary agencies to turn their backs on sound policies and take the "easy money" course.

Dr. McKinley is director of economic and investment research for The Prudential Insurance Company of America and spoke at the Mortgage Lending Conference of the New Jersey Bankers Association.

Educating Tomorrow's

WHAT subjects should be studied by a young person interested in a business career? As a college professor—teaching finance and advising students of job opportunities—I hear this question quite often.

The question is certainly not new. The classical economist, John Stuart Mill, observed a long time ago that the wise and conscientious pursuit of a trade or profession depends less on the professional training men receive than on "what kind of intelligence, and of conscience, the general system of education has developed in them." "Education," Mill observed, "makes a man a more intelligent shoemaker, if that be his occupation, not by teaching him how to make shoes; but it does so by the mental exercises it gives, and the habits it impresses."

If that statement were true in Mill's time, how much more so it is today. For one of the nation's most precious possessions — and the scarcest — are men and women who possess both character and wisdom. A glance down the "help wanted" column of the daily paper, a talk with the personnel officers in our business corporations or with the training directors of our banks and insurance companies will easily confirm the fact: there is a shortage of trained people.

With expanding population and the prospect of building and financing more homes, office buildings and shopping centers, the mortgage banking industry will be forced to recruit a considerable amount of new personnel. These men and women, coming into the business for the first time, will find that the ingredients of business success—unquestioned character, proven ability, wide knowledge and plenty of hard work—are still the same. What has changed is the environmental mold in which these qualities are cast. With the fast-moving changes brought about by ever-shifting political, economic and social forces, with the rapid increase in the complexities of business wrought by specialization and the on-rush of technology, tomorrow's mortgage banker —if he is to move successfully from policy to action—will need to know a good deal about a great many things. More than ever before, success will be reserved for the mortgage executive who will be in a position to interpret the social and political environment in which his particular company operates. All of this is just another way of saying that the men and women coming into the mortgage business in the future will need, among other qualifications, an excellent education.

Fortunately, for society in general and the mortgage banking business in particular, the market for human skills and endeavors has not been monopolized by any one group. A reading of Who's Who in America and the biographies of today's business leaders will show that there are many diverse roads traveled to success. Everyone can cite cases of individuals, majoring in one branch of knowledge, history, for example, who have achieved success in some totally unrelated field. The success of some of our non-college contemporaries—both in business and in the more important work of managing their daily lives—is additional proof of the fact that no particular course of study or type of education has a strangle-hold on success. It is foolhardy, therefore, to insist that this type of education is somehow better than that. Most educators, including those in business schools, would agree that the best thing a student can take away from college is the ability to learn for himself. One's growth in knowledge, competence and responsibility is of necessity a lifetime job.

With these facts in mind, what kind of knowledge should a mortgage banker possess? Whether gained in the classroom or distilled from wide reading and the discipline of day-to-day experience, the mortgage banker of the future—if he is going to measure up to the growing demands of the profession—will need three different kinds of knowledge: 1. Practical knowledge; 2. Social knowledge; and, 3. Ethical knowledge.

» THE PRACTICAL: In many respects, mortgage banking does not differ greatly from other businesses. Rewards in the mortgage business, as in other fields of endeavor, are held out for those individuals who have achieved a capacity for doing certain things well. The really successful people in any business are those who have acquired specific skills. These traits include

» The ability to read and write intelligently.

» The ability to listen and speak clearly.

» The ability to reason mathematically.

» The ability to think logically and objectively.

Ideally, the development of educational programs along these lines is the kind of work colleges are peculiarly able to do best. If our universities concentrate their efforts in giving their students a really sound foundation, in helping them develop independence of thought, verbal expression, imagination, a sense of excellence, a love of inquiry and a certain proficiency in dealing with problem situations, college officials will not have to worry about attracting understanding, appreciation and even financial support from all segments of the community. And the top people in the mortgage business—whose jobs will have to be filled one day by successors—will not have to worry about the caliber of the young people recruited from colleges.

The resources of a college—teachers, classrooms and dollars—are much too precious to be squandered recklessly or in doing for business what business can do better for itself. Our colleges will do violence to themselves and ultimately to their students if they dissipate their energies in foolishly trying to fill the student's mind with transient facts (which will undoubtedly be forgotten after the final examinations) or in developing detailed skills and pedestrian business techniques (which in these days of rapid technology will more than likely be out of date by the time the student starts out on his first job).

Admittedly, highly specialized knowledge and intensive training in business techniques is necessary. But

Mortgage Banker

By **FRANCIS J. CORRIGAN**

In recent years, MBA has directed a good part of its energies and thought to developing an educational program for the mortgage industry. The extent to which it has succeeded is evident by the great value which the industry places upon it today. But while we have succeeded in perfecting a pattern of education embracing all the various phases of training which go into creating an informed mortgage man, there are many basic objectives we should keep before us in creating an educated person. Dr. Corrigan reminds us here of the sound principles which this entails. He is Associate Professor of Finance in the School of Commerce and Finance at Saint Louis University and attended the Educators Conference this year at the University of Colorado.

is it the business of a university to provide this information? The goals which are vital to the success of society, of a university or to the mortgage banking business are easily lost sight of in the quest for particular efficiencies. In a free society, education has a two-fold social responsibility: education must serve the known needs of the community, and in turn, it has the added responsibility of widening and lifting the community's conception of needs. To the extent that the university fails in its mission of turning out individuals who can think, who have developed competence in choosing ends, in appraising alternatives, in making decisions and in formulating and executing plans, the community—and the business of mortgage banking—will be the real losers.

» THE SOCIAL: In addition to practical knowledge, tomorrow's mortgage lender needs to develop an understanding of the economic and social climate in which business operates. Without a knowledge of the social forces at work today—the hopes and aspirations, the doubts and fears, the needs and motivations of society's diverse elements—one will not be able to identify the powerful pressures and counter pressures which are felt by all members of a group. If higher education is to make men sensitive in their understanding of human behavior and alert to the experiences of men as they are challenged by a new world, it must give to students familiarity and competence in social problems and social change. This conclusion is reinforced by the fact that failures among gainfully employed persons arise more from their inability to adjust to the social environment than lack of competence in their particular field. A business establishment simply can not afford to take the risk of hiring an individual—no matter how brilliant he may be—who antagonizes customers or who fails to get along with fellow workers.

Without an understanding of today's economy and the peculiar social milieu of which business is a part, the businessman will not be in a position to measure and weigh the significance of his decisions. Businessmen are naturally interested in the healthy growth and wise management of their organizations. The businessman knows, perhaps more than others, that the enterprise must be both efficient and profitable if it is to survive. Yet in the pursuit of self-interest, businessmen can not ignore or even overlook the manifold forces which increasingly influence and control their activities.

Today's businessman is responsible to practically everyone: customers, employees, stockholders, the community at large and the federal government. In the long run, the profitability of any business depends on how well the interests of all these groups are reconciled.

If something is going to be done about the problems facing the mortgage banker—problems of prices and wages, taxation and public debt management, the demand and supply of savings and governmental controls, to mention just a few—social intelligence of a very high order will be required.

» THE ETHICAL: It seems hardly necessary to say that the privilege of entering and continuing in the mortgage business implies a wide knowledge of ethics. Mortgage banking is a highly technical business and one not always understood by the general public. Any impression — right or wrong—which the public gets of unfairness or the *appearance* of improper conduct will seriously damage industry acceptance. And if business fails demonstrably to serve the general public, it invites repudiation or increased governmental control.

The record shows that the mortgage business has been conducted on a high ethical plane. Yet it is well to remind those contemplating a mortgage career that they have a duty to see to it that these high standards are preserved. In this connection, the nation's colleges and universities have an unparalleled opportunity for service. College educators and college graduates must play an active role in influencing the development of business thought, standards and practices. Without attitudes and ideals, beliefs and irreducible faith, our nation will not have the proper scale of values in deciding what to make of life.

Karl Marx was wrong. Man is more than a product of the tools he uses to earn a living. If man possesses understanding, personality and the ability to choose between right and wrong, he is a moral creature whose grounding is steeped in philosophy.

The plain fact of the matter is that education without a knowledge of ethics can be deadly. Education is of little value for mortgage banking or anything else if it creates intellectual giants and ethical pygmies. Now that mankind has created the awful power to destroy itself, the race between education and catastrophe is really a matter of life and death.

Gets St. Louis MBA Special Award

An annual event with the St. Louis MBA is Past Presidents Night and this year fifteen of those who have headed the Association in former years turned up for the affair. Oldest past president was Eugene F. Williams, chairman of the board of Williams, Kurrus & Company, who headed the St. Louis MBA in 1931 and was one of the founders of the organization. Each past president received a special certificate to commemorate his service.

Above, O. J. Brichler (left), president, St. Louis MBA, and president, Shaw, Brichler & Coleman, Inc., and L. L. Seeman (right), president, Mortgage Syndicate, Inc., and Awards Committee chairman for the Association, present to McCune Gill a special citation. Gill, president of the Title Insurance Corporation of St. Louis and dean of title men in the area, was hailed for "more than 30 years of intelligent and constructive service to mortgage bankers, real estate dealers, banks and builders and their lawyers."

Mr. Gill is a former member of the MBA board of governors and a frequent contributor to *The Mortgage Banker.* Principal speaker of the evening was Ross Robertson, economist of the St. Louis Federal Reserve Bank.

Two New Works Ready In MBA Award Series

Two new works have been given MBA Certificate of Merit awards and are now ready for distribution to those members who request them:

Project Construction Financing by George Robert Monroe, Secretary, The Monarch Investment Company, Wichita.

The Mortgage Banker of Yesterday and Today by G. J. Hoffmann, Jr., Treasurer, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

Previous works under this program are still available for distribution:

The Motel Story by Jerry B. Frey, Jr., The Brown-Frey Mortgage Company, Dallas.

Simplified Mortgage Service Accounting Procedures by John K. Benoit, Equitable Life Insurance Company of Iowa.

Subdivision Development and Financing by J. Wray Murray, Commonwealth Life Insurance Co., Louisville.

Direct Placement of Industrial Securities by Mortgage Bankers by Walter Mahlstedt, Teachers Insurance and Annuity Association of America.

Mortgage Loan Analysis of Retail Properties by Robert P. Russell, T. J. Bettes Company, Houston.

Auditing the Loan Correspondent by D. R. Olson, Equitable Life Insurance Company of Iowa, Des Moines.

If You're Missed in Trust Fund Drive—

About the time this issue is circulating among members, the Trust Fund Campaign Drive to solicit funds for the Research and Educational Trust Fund of the Mortgage Bankers Association of America will be well under way. Headed by E. R. Haley of Des Moines as general chairman, with team captains in each MBA district, it is contemplated that every member will be contacted directly. However, because of limitations of time and manpower, this may not be possible. Some members may be missed in this first general solicitation for funds. If you should be one of those, you are earnestly requested to use the coupon on this page to make your contribution. As President Austin says in his page in this issue, here is an effort which holds great possibilities for mortgage men, a well-conceived plan to provide for worthwhile research which we can use in our operations and to expand even further the educational opportunities in the mortgage field. Your contribution is tax deductible. Any amount is welcome. What you contribute will be returned to you many times.

TO Research and Educational Trust Fund of MBA

I (we) wish to make contribution to the above Fund in the amount of $__________. The contribution will be made in the following manner:

☐ Paid in full at this time.

☐ To be paid in two payments of $__________ each in ______ (year) and ______ (year).

☐ To be paid in three payments of $__________ each in ______ (year), ______ (year), and ______ (year).

It is understood that this pledge can be cancelled for just reason and upon advance notice.

(Signature)________________

Company________________

Address________________

____

A New Illinois MBA Is Organized

The newly-organized Illinois MBA elected Robert A. Seise, Rockford, as president. Seise is a vice president of the Northern Illinois Mortgage Company, Rockford. Other officers elected were: First vice president, Carl Jackson, vice president, Mercantile Mortgage Company, Granite City; second vice president, T. Douglas Johnson, president, Johnson Loan Agency, Decatur; and secretary-treasury, John R. Womer, vice president, Great Lakes Mortgage Corporation, Chicago.

Governors elected include F. Jay Decker, president, F. Jay Decker Company, Peoria; Robert E. Orr, Iowa Securities Company, Rock Island; and H. Hoyt Thompson, of Ward Farnsworth and Company, Chicago.

Above, Mr. Seise discusses the association's program with other newly-named officers. Left to right (seated) are Mr. Jackson, Mr. Johnson, and Mr. Womer.

Form a New Group to Advise FHA

A group of bankers experienced in mortgage lending in smaller communities have organized with FHA Commissioner Norman P. Mason to explore means by which FHA can give better service in small cities and towns.

"If indeed we find the benefits of FHA to be less readily available to citizens of small communities than to people living in larger urban areas, we want to do something about it," Commissioner Mason said. "It is FHA's intent to make the advantages of its loan insurance programs equally beneficial to all home owners and prospective purchasers throughout America."

Explaining that there were many facets of FHA's services to be explored, Commissioner Mason said that he was seeking opinions of the representative bankers on such matters as how to achieve prompter processing in outlying areas, the appropriateness of FHA's present construction requirements for smaller communities, and the effectiveness and public understanding everywhere of each of FHA's special programs such as its newest plans to make more and better housing available for elderly people.

Left to right, sitting: William J. Taggart, Jr., vice president, Equitable Security Trust Company, Wilmington; Mr. Mason; Albert M. Cole, administrator, Housing and Home Finance Agency; V. R. Steffensen, senior vice president, First Security Bank of Utah, Salt Lake City. Left to right, standing: Thomas L. Nims, secretary ABA; Paul M. Minter, vice president, National City Bank, Cleveland; Richard B. Haskell, president and treasurer, Mechanics Savings Bank, Hartford; Giles H. Miller, Jr., president, Culpeper National Bank, Culpeper, Virginia.

N. J. MBA Sponsors Education Course

Evaluations made of the first mortgage training course sponsored by the New Jersey MBA and Rutgers, indicates that it will become one of the major facets of the Association's program to provide a sound educational base for mortgage financing in the state.

Thirty-three selected employees of mortgage banking institutions throughout the state have just completed their first semester's training at the University's Extension Division in Newark. The school was launched on September 19 with a 12-week curriculum. Specific objective of the school is to provide specialized training for employees who show promise as key executives in the mortgage banking field. *(Continued next page)*

Lecturers are leading experts from the staffs of a number of MBA institutions. Each student has been furnished with a comprehensive text book and is given assignments. Examinations will be conducted, and the students tested on their knowledge of mortgage fundamentals, legal aspects of mortgages, types of mortgage loans, inspection and appraisal procedure, FHA and VA loans, credit and security analysis, hazard insurance, closing mortgage loans and mortgage warehousing.

William Breliant, real estate broker and property management specialist, has been elected chairman of the board of Security Title Insurance Company, Los Angeles, second largest title firm in California and fourth in the nation. **J. A. Harvey, Jr.,** was elected president. He succeeds **Howard H. Rolapp,** resigned. Harvey was vice president in charge of the operations research department of the company before his election to his present office.

Mortgage Investment Corporation, San Antonio, elected **A. H. Cadwallader, Jr.,** who has been president since 1941, as chairman of the board and **James E. Klaver** succeeds him as president. **A. H. Cadwallader, III,** was elected executive vice president. **Albert C. McDavid,** Jr., was named vice president and secretary and **Jerry Wallace,** manager of the firm's Austin branch, was chosen assistant vice president.

John S. Corley, secretary-treasurer of Bankers Life Company, Des Moines, is retiring. **Raymond E. Cassell** has been promoted from assistant vice president to secretary and **Harvey E. Hanford** from manager, city loans, to treasurer. **Robert B. Patrick,** formerly financial vice president, has been promoted to vice president. **Dennis N. Warters** has been elected president to succeed **E. M. McConney,** who retires on December 1.

John S. Schneider, vice president and manager of the mortgage loan department of D. L. Stokes & Co., Inc., Atlanta, was elected president of the Georgia chapter of the American Institute of Real Estate Appraisers.

New Members in MBA

CALIFORNIA, *San Francisco:* Huntoon, Paige & Co., William A. Dice, manager; Western City Mortgage Co., Kirk Whitehead.

CANADA, *Montreal, Quebec:* Bank of Montreal.

COLORADO, *Denver:* Johnson-Anderson Mortgage Co., E. J. Dempsey.

FLORIDA, *St. Petersburg:* North American Mortgage Corporation, Martin J. Roess.

GEORGIA, *Atlanta:* Empire Realty & Mortgage Company, Eugene Oberdorfer, president.

TEXAS, *El Paso:* Del Norte Mortgage Co., John E. Grissom, president; *Houston:* The Robert C. Wilson Company, Robert C. Wilson, Jr., president.

WASHINGTON, *Yakima:* Clark Jennings & Associates, Inc., Clark Jennings, Jr.